

# 2019 SECOND QUARTER REPORT



## OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Six months ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>OPERATING</b>					
Average daily production					
Heavy oil (bbls/d)	<b>1,016</b>	1,404	478	<b>1,210</b>	513
Medium oil (bbls/d)	-	68	271	<b>34</b>	339
Natural gas (Mcf/d)	<b>2,914</b>	2,510	1,309	<b>2,713</b>	1,323
NGLs (bbls/d)	<b>88</b>	47	23	<b>68</b>	30
Total (boe/d)	<b>1,591</b>	1,939	991	<b>1,764</b>	1,102
Total boe/d per million shares – diluted	<b>14.4</b>	17.6	9.0	<b>16.0</b>	10.0
Average realized prices					
Heavy oil (\$/bbl)	<b>62.83</b>	51.62	58.83	<b>56.36</b>	51.80
Medium oil (\$/bbl)	-	48.97	67.64	<b>48.97</b>	57.72
Natural gas (\$/Mcf)	<b>1.30</b>	2.06	1.32	<b>1.65</b>	1.74
NGLs (\$/bbl)	<b>24.23</b>	37.16	51.68	<b>28.70</b>	50.92
Total (\$/boe)	<b>43.89</b>	42.71	49.87	<b>43.24</b>	45.32
(\$/boe)					
Petroleum and natural gas sales	<b>43.89</b>	42.71	49.87	<b>43.24</b>	45.32
Realized gain on financial instruments	<b>1.23</b>	-	-	<b>0.56</b>	-
Royalties	<b>(4.08)</b>	(3.98)	(4.69)	<b>(4.03)</b>	(4.60)
Operating	<b>(9.56)</b>	(8.18)	(12.26)	<b>(8.81)</b>	(11.58)
Transportation	<b>(4.92)</b>	(3.70)	(1.70)	<b>(4.25)</b>	(1.67)
Operating netback <sup>(1)</sup>	<b>26.56</b>	26.85	31.22	<b>26.71</b>	27.47
General and administrative	<b>(2.94)</b>	(2.64)	(5.17)	<b>(2.78)</b>	(4.56)
Exploration expense	-	(0.12)	-	<b>(0.07)</b>	-
Credit facility interest and financing expense	<b>(0.50)</b>	(0.29)	(0.88)	<b>(0.39)</b>	(0.67)
Interest Income	-	-	0.18	-	0.08
Adjusted funds flow per boe <sup>(1)</sup>	<b>23.12</b>	23.80	25.35	<b>23.47</b>	22.32
<b>FINANCIAL</b> (\$000, except per share amounts)					
Petroleum and natural gas sales	<b>6,353</b>	7,453	4,497	<b>13,806</b>	9,044
Adjusted funds flow <sup>(1)</sup>	<b>3,346</b>	4,153	2,285	<b>7,499</b>	4,453
Per share – diluted <sup>(1)</sup>	<b>0.03</b>	0.04	0.02	<b>0.07</b>	0.04
Net income	<b>1,044</b>	929	2,750	<b>1,973</b>	2,927
Per share – diluted	<b>0.01</b>	0.01	0.02	<b>0.02</b>	0.03
Capital expenditures	<b>6,350</b>	1,453	6,344	<b>7,803</b>	13,689
Property dispositions	-	-	(27,712)	-	(27,712)
Total capital expenditures	<b>6,350</b>	1,453	(21,368)	<b>7,803</b>	(14,023)
Net debt/(working capital surplus) <sup>(1)</sup>	<b>5,109</b>	2,105	(14,761)	<b>5,109</b>	(14,761)
Common shares outstanding (000)					
End of period – basic	<b>108,921</b>	108,921	108,921	<b>108,921</b>	108,921
Weighted average for the period – basic <sup>(2)</sup>	<b>108,921</b>	108,921	108,921	<b>108,921</b>	108,921
Weighted average for the period – diluted <sup>(2)</sup>	<b>110,503</b>	110,430	110,546	<b>110,466</b>	109,947

(1) Adjusted funds flow, net debt and operating netback are non-GAAP measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of the MD&A.

# PRESIDENT'S MESSAGE

## SECOND QUARTER 2019 HIGHLIGHTS

- Produced an average of 1,591 boe per day, an increase of 60 percent on an absolute and per share basis from the second quarter of 2018.
- Generated adjusted funds flow<sup>1</sup> of \$3.3 million, up 46 percent on an absolute and per share basis from the second quarter of 2018.
- Generated net income of \$1.0 million compared to net income of \$2.8 million in the second quarter of 2018. The second quarter of 2018 net income included a gain on disposition of assets of \$2.9 million.
- Capital expenditures totaled \$6.4 million. Altura drilled two 1.5-mile extended reach horizontal ("ERH") wells, a vertical stratigraphic well in a new area and completed its solution gas compressor installation at Leduc-Woodbend.
- Year-to-date capital expenditures totaled \$7.8 million, consistent with year-to-date adjusted funds flow of \$7.5 million.
- Net debt<sup>1</sup> at June 30, 2019 was \$5.1 million, 0.4 times annualized second quarter adjusted funds flow.
- August 2019 AER Liability Management Rating ("LMR") of 10.53.

## SECOND QUARTER REVIEW

Second quarter production averaged 1,591 boe per day, down 348 boe per day or 18 percent from the first quarter of 2019. Production was affected by natural declines as no new wells were brought on production, and by well down time from workover activities in the quarter. The well down time adversely impacted production volumes by approximately 205 boe per day in the quarter.

Altura's realized heavy oil price increased 22 percent in the second quarter from the first quarter of 2019 while the Corporation's average realized price increased three percent due to lower natural gas prices, lower propane and butane prices and an increased weighting of natural gas production relative to total production.

Operating costs in the second quarter increased 17 percent to \$9.56 per boe from the first quarter of 2019 due to workover activities in April and May 2019 and increased gas processing costs. To improve well run-time efficiency and reduce future operating costs, the Corporation incurred \$1.0 million in capital expenditures to convert six wells from progressive cavity pumps to pumpjacks in June 2019. As a result, operating costs decreased from \$10.99 per boe in April and May 2019 to \$6.62 per boe in June 2019.

Transportation costs increased 33 percent to \$4.92 per boe from the first quarter of 2019 due to hauling reduced loads of clean oil during annual spring break-up road bans in April and May 2019. Transportation costs decreased from \$5.62 per boe in April and May 2019 to \$3.47 per boe in June 2019 after road bans were lifted.

Adjusted funds flow<sup>1</sup> was \$3.3 million in the second quarter of 2019, down 19 percent from the first quarter of 2019 due to decreased production volumes and higher operating and transportation costs.

The Corporation's operating netback<sup>1</sup> averaged \$26.56 per boe, consistent with the first quarter of 2019 operating netback of \$26.85 per boe.

Altura drilled two ERH wells at Leduc-Woodbend and a vertical stratigraphic well in a new area called Entice, located south of Strathmore, Alberta. The geological and geophysical data obtained from the stratigraphic well has been reviewed and further appraisal of the concept will be undertaken at the discretion of the Corporation.

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<sup>1</sup> Adjusted funds flow, net debt and operating netback are non-GAAP measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" contained within the "Advisories" section of Altura's MD&A.

## **OPERATIONAL UPDATE**

The two ERH wells drilled in the second quarter were completed and equipped for production in July and brought on production in August 2019 with estimated drill, completion and equipping costs of \$2.3 million per well, 13 percent lower than the 2018 ERH well costs. The reduction in well costs is mainly attributed to efficiencies on the well completions.

## **OUTLOOK**

Altura's adjusted funds flow in the second quarter of 2019 was adversely impacted by down time and increased operating costs associated with the workover activities. To maintain a strong balance sheet, Altura's 2019 capital expenditure budget of \$15.0 million has been reduced by \$1.5 million to \$13.5 million and includes drilling a total of three ERH wells at Leduc-Woodbend. This is down from four ERH wells in the previous guidance. Additionally, the Corporation has budgeted \$0.8 million for the second half of 2019 to convert the remaining five wells at Leduc-Woodbend from progressive cavity pumps to pumpjacks to reduce future down time and operating costs associated with workover activities.

Altura is progressing its waterflood pilot project at Leduc-Woodbend. The two ERH wells drilled in the second quarter were drilled at 200 meter inter-well spacing, offsetting an existing horizontal well that is planned to be converted to a water injector in the fourth quarter of 2019.

Despite the downward revision in capital, Altura's base production coupled with production from its planned capital program continues to be forecasted to grow annual average production to between 1,700 to 1,800 Boe per day in 2019 (unchanged from prior guidance), compared to 1,172 Boe per day in 2018, representing more than a 45 percent increase on an absolute and per share basis.

Management intends to continuously monitor well performance and commodity prices throughout the year and may at any time adjust the 2019 capital program if well performance is exceeding expectations or if oil prices deteriorate or strengthen. The capital program leaves Altura with a conservative balance sheet and the flexibility to accelerate development in the fourth quarter of 2019 if results and commodity prices are supportive.

Respectfully,

/s/ David Burghardt  
President and Chief Executive Officer  
August 14, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Altura Energy Inc. (the "Corporation" or "Altura") is dated August 14, 2019 and should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2019, the audited consolidated financial statements and related notes for the year ended December 31, 2018, as well as the Corporation's Annual Information Form that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, in Canadian dollars, except where indicated otherwise.

This MD&A contains non-generally accepted accounting principles ("GAAP") measures and forward-looking statements. Readers are cautioned that the MD&A should be read in conjunction with Altura's disclosure under the headings "Non-GAAP Measures" and "Forward-looking Information" included in the "Advisories" section at the end of this MD&A.

### DESCRIPTION OF BUSINESS

Altura is a junior oil and gas exploration, development and production company with operations in central Alberta. Altura predominantly produces from the Rex member in the Upper Mannville group and is focused on delivering per share growth and attractive shareholder returns through a combination of organic growth and strategic acquisitions. Additional information regarding Altura is available on SEDAR and on its website at [www.alturaenergy.ca](http://www.alturaenergy.ca). Altura's common shares are listed for trading on the TSX Venture Exchange under the symbol "ATU".

### ECONOMIC ENVIRONMENT

Crude oil prices improved in the second quarter of 2019, with the West Texas Intermediate ("WTI") benchmark price averaging nine percent higher than the first quarter of 2019 but averaged 12 percent lower than the second quarter of 2018. Canadian crude oil prices continued to benefit from the Alberta government production curtailment as the differential between WTI and the Western Canadian Select oil price ("WCS") averaged US\$10.67 per barrel in the second quarter of 2019, 13 percent lower than the first quarter of 2019 and 45 percent lower relative to the second quarter of 2018.

Altura primarily compares its oil price to the WCS oil price at the Hardisty, Alberta oil sales terminal which increased 16 percent in the second quarter of 2019 relative to the first quarter of 2019 and increased five percent relative to the second quarter of 2018.

### 2019 GUIDANCE

The following table summarizes the Corporation's 2019 revised guidance compared to prior guidance and 2019 year-to-date results.

	2019 Prior Guidance	2019 Revised Guidance	2019 YTD Actual
2019 Capital expenditures (\$000)	15,000	13,500	7,803
Leduc-Woodbend extended reach horizontal ("ERH") wells	4	3	2
2019 Average production volumes (boe/d)	1,700–1,800	1,700–1,800	1,764

Altura's adjusted funds flow in the second quarter of 2019 was adversely impacted by down time and increased operating costs associated with workover activities. To maintain a strong balance sheet, Altura's 2019 capital expenditure budget of \$15.0 million has been reduced by \$1.5 million to \$13.5 million and includes drilling a total of three ERH wells at Leduc-Woodbend. This is down from four ERH wells in the previous guidance. Additionally, the Corporation has budgeted \$0.8 million for the second half of 2019 to convert the remaining five wells at Leduc-Woodbend from progressive cavity pumps to pumpjacks to reduce future down time and operating costs associated with workover activities.

## RESULTS OF OPERATIONS

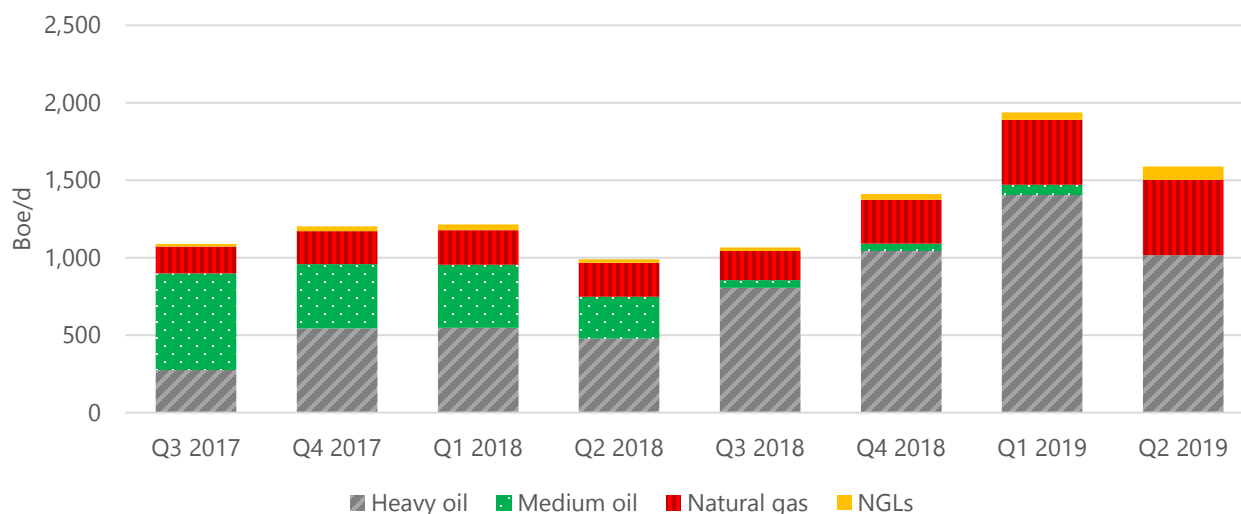
### Production

	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Heavy oil (bbls/d)	1,016	478	113	1,210	513	136
Medium oil (bbls/d)	-	271	(100)	34	339	(90)
Natural gas (Mcf/d)	2,914	1,309	123	2,713	1,323	105
Natural gas liquids ("NGLs") (bbls/d)	88	23	283	68	30	127
Total (boe/d)	1,591	991	61	1,764	1,102	60
Oil and natural gas liquids % of production	69%	78%	(12)	74%	80%	(8)

During the three and six months ended June 30, 2019, daily production volumes increased 61 percent and 60 percent respectively, as compared to the same periods in the prior year. The increases are due to increased production from the Leduc-Woodbend area following drilling and completions activity in the second half of 2018, partially offset by the disposition of Altura's east central Alberta and Saskatchewan assets on May 31, 2018 (the "Provost Disposition"). No wells were brought on production in the second quarter of 2019.

In the second quarter of 2019, the Corporation had no medium oil production volumes, compared to 271 boe per day in the same period in the prior year. The decrease is due to the Provost Disposition and due to Altura pipeline connecting two heavy oil wells producing from the Rex member to its medium oil Glauconitic battery at the end of February 2019. Commencing in March 2019, oil from this battery has been blended and sold into the heavy oil stream, eliminating Altura's medium oil sales.

Quarterly Average Daily Production

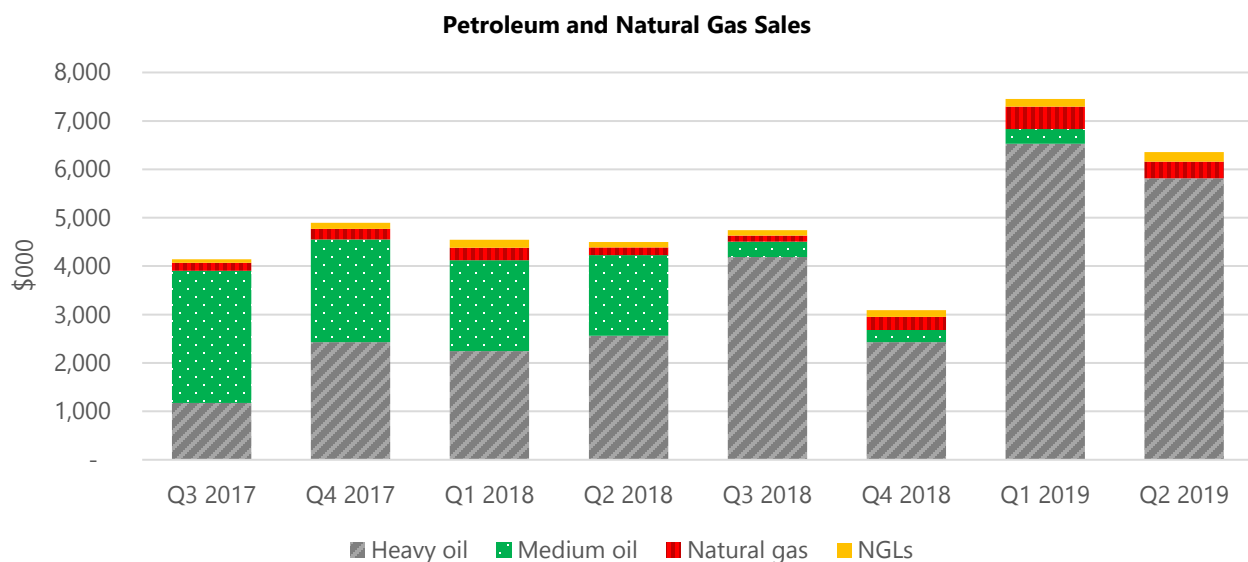


Average production in the second quarter of 2019 was 1,591 boe per day, 348 boe per day or 18 percent lower than the first quarter of 2019. Production was affected by natural declines as no new wells were brought on production in the quarter and by well down time resulting from pump failures in April and May 2019. To improve well run-time efficiency due to the increased weighting of natural gas production, Altura has converted the artificial lift systems on six wells as described under the headings "Operating and Transportation Costs" and "Capital Expenditures" in this MD&A.

## Petroleum and Natural Gas Sales

(\$000)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Heavy oil	<b>5,812</b>	2,561	127	<b>12,341</b>	4,806	157
Medium oil	-	1,669	(100)	<b>300</b>	3,546	(92)
Natural gas	<b>346</b>	158	119	<b>812</b>	416	95
NGLs	<b>195</b>	109	79	<b>353</b>	276	28
Petroleum and natural gas sales	<b>6,353</b>	4,497	41	<b>13,806</b>	9,044	53

Petroleum and natural gas sales for the second quarter of 2019 increased 41 percent to \$6,353,000 compared to \$4,497,000 in the second quarter of 2018. The increase of \$1,856,000 consists of \$1,712,000 attributed to increased production volumes and \$144,000 attributed to higher realized crude oil prices, partially offset by lower NGL and natural gas prices. For the six months ended June 30, 2019, petroleum and natural gas sales increased 53 percent to \$13,806,000 compared to \$9,044,000 in the same period of 2018. The increase of \$4,762,000 consists of \$4,133,000 attributed to increased production volumes and \$629,000 attributed to higher realized crude oil prices, partially offset by lower NGL and natural gas prices.



Altura sells its crude oil on a monthly index basis and natural gas production on a spot basis. The average realized price the Corporation receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal crude oil benchmarks that Altura compares its oil price to are the WTI oil price and the WCS oil price. The differential between WTI and WCS oil prices can widen due to several factors, including, but not limited to, downtime in North American refineries, rising domestic and international production, the US to Canadian dollar exchange rate, high inventory levels in North America and lack of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

The following table outlines the Corporation's benchmark and realized petroleum and natural gas prices:

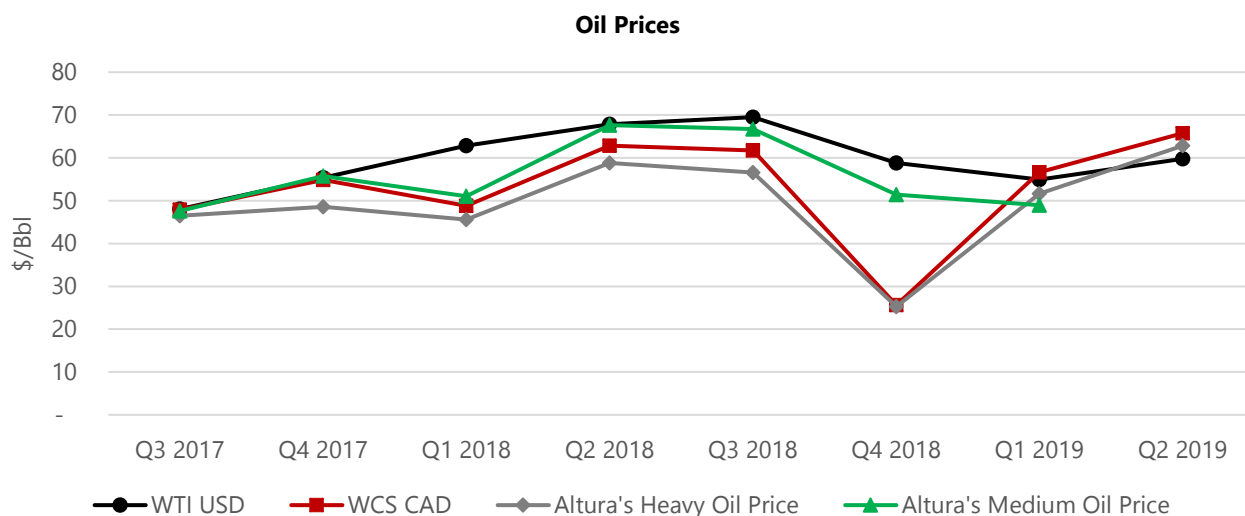
	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
<b>Average Benchmark Prices</b>						
WTI crude oil (US\$/bbl) <sup>(1)</sup>	<b>59.81</b>	67.88	(12)	<b>57.36</b>	65.37	(12)
WCS differential (US\$/bbl) <sup>(2)</sup>	<b>(10.67)</b>	(19.27)	(45)	<b>(11.48)</b>	(21.77)	(47)
US\$/Cdn\$ exchange rate	<b>0.747</b>	0.775	(4)	<b>0.750</b>	0.782	(4)
WCS (Cdn\$/bbl)	<b>65.76</b>	62.82	5	<b>61.21</b>	55.80	10
AECO daily spot (\$/GJ)	<b>0.98</b>	1.12	(13)	<b>1.73</b>	1.54	12
<b>Average Realized Prices</b>						
Heavy oil (\$/bbl)	<b>62.83</b>	58.83	7	<b>56.36</b>	51.80	9
Medium oil (\$/bbl)	-	67.64	(100)	<b>48.97</b>	57.72	(15)
Natural gas (\$/Mcf)	<b>1.30</b>	1.32	(2)	<b>1.65</b>	1.74	(5)
Natural gas liquids (\$/bbl)	<b>24.23</b>	51.68	(53)	<b>28.70</b>	50.92	(44)
Average realized price (\$/boe)	<b>43.89</b>	49.87	(12)	<b>43.24</b>	45.32	(5)

(1) WTI represents posting price of West Texas Intermediate crude oil.

(2) WCS differential represents the difference between the average market price for the benchmark Western Canadian Select heavy crude oil and WTI.

WTI decreased 12 percent during the three and six months ended June 30, 2019, while Altura's realized heavy oil price increased seven percent and nine percent, respectively. The impact of lower WTI prices was offset by the narrowing differential between WTI and WCS to an average discount of US\$10.67 per barrel and US\$11.48 per barrel compared to US\$19.27 per barrel and US\$21.77 per barrel, in the same periods in 2018, respectively. The WCS differential started narrowing in the first quarter of 2019 due to the Alberta government's mandatory production curtailment designed to balance the market and reduce crude oil differentials.

Altura's average realized price declined 12 percent to \$43.89 per boe in the second quarter of 2019 compared to the same period in the prior year as the increase in the realized heavy oil price was more than offset by lower natural gas prices, lower NGL prices and an increased weighting of natural gas production relative to total production.



In the second quarter of 2019, Altura's realized natural gas price decreased by two percent to \$1.30 per Mcf from the second quarter of 2018 while the AECO daily spot price decreased 13 percent to \$0.98 per GJ. In the first half of 2019, Altura's realized natural gas price decreased by five percent to \$1.65 per Mcf from the first half of 2018 while the AECO daily spot price increased 12 percent to \$1.73 per GJ. The decreased realized natural gas price in the first half of 2019 is due to a gas balance recovery on the NOVA pipeline, negatively impacting Altura in February and March 2019.

## Risk Management Contracts

Altura initiated a risk management program in the second quarter of 2019 to reduce the volatility of crude oil sales, increase the certainty of adjusted funds flow to protect development economics, and to comply with details of its banking covenant. The Corporation's risk management program is approved by Altura's Board of Directors.

	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Realized gain on financial instruments	178	-	-	178	-	-
Realized gain on financial instruments per boe	1.23	-	-	0.56	-	-

For the second quarter of 2019, the realized gain reflects cash settlements received on a May 2019 WTI contract of 300 bbls per day at CAD \$87.00 per bbl and a June 2019 WCS contract of 300 bbls per day at CAD \$70.00 per bbl.

At June 30, 2019, Altura held the following crude oil contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at June 30, 2019 (\$000)
Jul 1/19—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00	498
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20	(81)
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)	(54)
						<b>363</b>

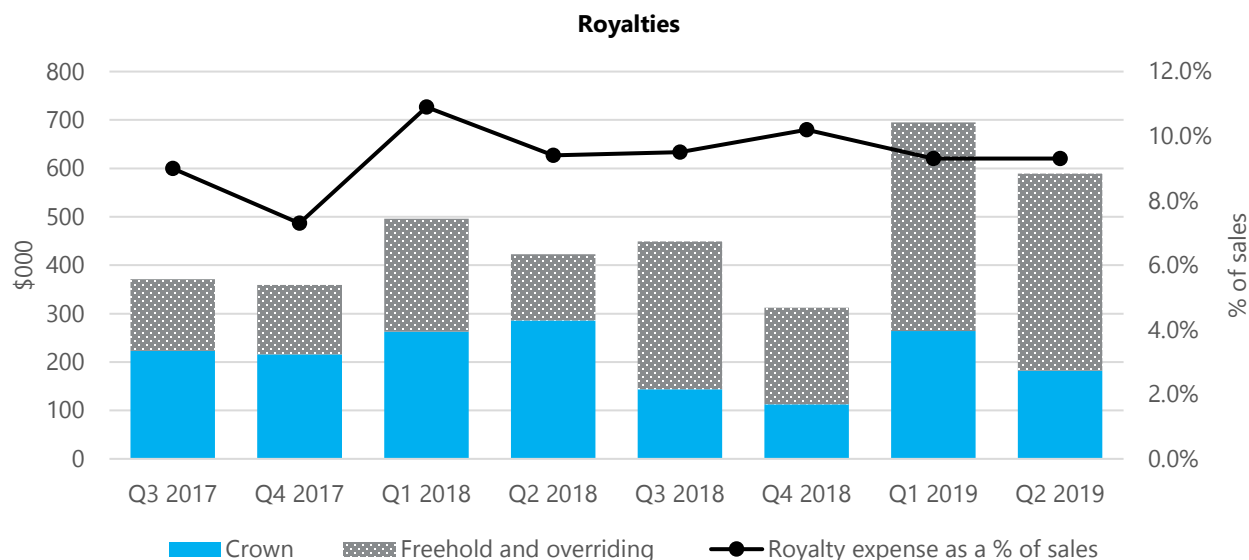
At June 30, 2019, the crude oil contracts were fair valued with an asset of \$363,000 (December 31, 2018 - \$nil) recorded on the balance sheet and an unrealized gain of \$363,000 recorded in net income for the three and six months ended June 30, 2019 (June 30, 2018 - \$nil).



## Royalties

(\$000, except % and per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Crown royalties	182	286	(36)	446	549	(19)
Freehold and overriding royalties	407	137	197	838	370	126
Royalty expense	589	423	39	1,284	919	40
Royalty expense as a % of sales	9.3%	9.4%	(1)	9.3%	10.2%	(9)
Royalty expense per boe	4.08	4.69	(13)	4.03	4.60	(12)

Total royalties for the three and six months ended June 30, 2019 were \$589,000 and \$1,284,000 (\$423,000 and \$919,000 for the same periods in 2018), respectively. Total royalties as a percentage of petroleum and natural gas sales was flat for the second quarter of 2019 at 9.3 percent (\$4.08 per boe) compared to 9.4 percent (\$4.69 per boe) in the second quarter of 2018. For the six months ended June 30, 2019, total royalties represented 9.3 percent of petroleum and natural gas sales (\$4.03 per boe) as compared to 10.2 percent (\$4.60 per boe) in the same period in 2018.

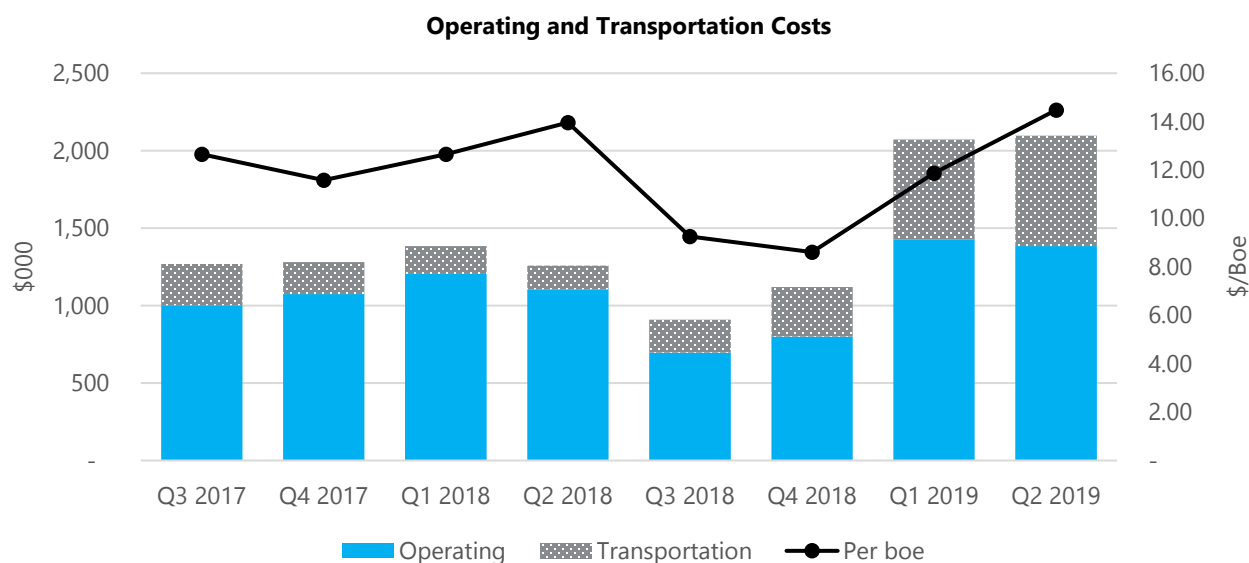


## Operating and Transportation Costs

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Operating	<b>1,385</b>	1,105	25	<b>2,812</b>	2,309	22
Transportation	<b>712</b>	153	365	<b>1,357</b>	334	306
Operating and transportation	<b>2,097</b>	1,258	67	<b>4,169</b>	2,643	58
Operating per boe	<b>9.56</b>	12.26	(22)	<b>8.81</b>	11.58	(24)
Transportation per boe	<b>4.92</b>	1.70	189	<b>4.25</b>	1.67	154
Operating and transportation per boe	<b>14.48</b>	13.96	4	<b>13.06</b>	13.25	(1)

Operating costs for the three and six months ended June 30, 2019 increased to \$1,385,000 and \$2,812,000 as compared to \$1,105,000 and \$2,309,000 in comparable prior periods, respectively. This increase is primarily due to increased production volumes coupled with higher repairs and maintenance costs. On a per boe basis, operating expenses decreased \$2.70 per boe and \$2.77 per boe to \$9.56 per boe and \$8.81 per boe in the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. The decrease is mainly due to the completion of the Leduc-Woodbend multi-well battery that enables the Corporation to treat emulsion and dispose water on site, which reduced water hauling and disposal fees, emulsion hauling and oil treating costs. The reduction in emulsion hauling is offset with increased clean oil hauling, which is included in transportation costs.

Transportation costs for the three and six months ended June 30, 2019 increased to \$712,000 and \$1,357,000 as compared to \$153,000 and \$334,000 in comparable prior periods, primarily due to increased production volumes, coupled with increased clean oil hauling. On a per boe basis, transportation expenses increased to \$4.92 per boe and \$4.25 per boe in the three and six months ended June 30, 2019, respectively, compared to \$1.70 per boe and \$1.67 per boe in the same periods of 2018. The increase is due to increased clean oil hauling associated with the completion of the Leduc-Woodbend multi-well battery, longer hauls to sales terminals in eastern Alberta to maximize crude oil prices and due to spring break-up road restrictions that limited oil volumes per load in April and May 2019.



Operating and transportation costs increased \$2.60 per boe to \$14.48 per boe in the second quarter of 2019 compared to \$11.88 per boe in the first quarter of 2019. Transportation costs in the second quarter of 2019 increased \$1.22 per boe to \$4.92 per boe from the first quarter of 2019 due to spring break-up road restrictions that limited oil volumes per load in April and May 2019. Transportation costs decreased from \$5.62 per boe in April and May 2019 to \$3.47 per boe in June 2019, after road restrictions were lifted. Operating costs in the second quarter of 2019 increased 17 percent to \$9.56 per boe from the first quarter of 2019 and were affected by increased repairs and maintenance costs related to pump failures in April and May

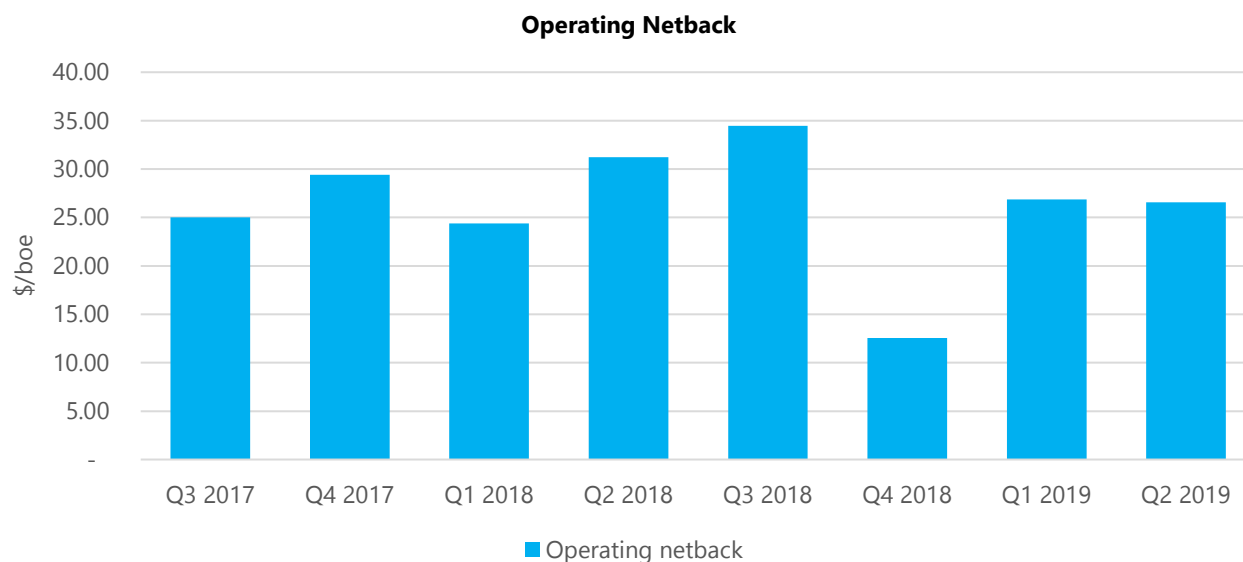
2019 and increased gas processing costs related to the increased weighting of natural gas production. To improve well run-time efficiency and reduce future operating costs, the Corporation converted six wells from progressive cavity pumps to pump jacks in June 2019. As a result, operating costs decreased from \$10.99 per boe in April and May 2019 to \$6.62 per boe in June 2019.

## Operating Netback

(\$/boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Petroleum and natural gas sales	<b>43.89</b>	49.87	(12)	<b>43.24</b>	45.32	(5)
Realized gain on financial instruments	<b>1.23</b>	-	-	<b>0.56</b>	-	-
Royalties	<b>(4.08)</b>	(4.69)	(13)	<b>(4.03)</b>	(4.60)	(12)
Operating	<b>(9.56)</b>	(12.26)	(22)	<b>(8.81)</b>	(11.58)	(24)
Transportation	<b>(4.92)</b>	(1.70)	189	<b>(4.25)</b>	(1.67)	154
Operating netback <sup>(1)</sup>	<b>26.56</b>	31.22	(15)	<b>26.71</b>	27.47	(3)

(1) Operating netback is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

Altura's operating netback was \$26.56 per boe in the second quarter of 2019 compared to \$31.22 per boe in the second quarter of 2018. For the six months ended June 30, 2019, Altura's operating netback was \$26.71 per boe compared to \$27.47 per boe in the same period of 2018. The decreases are a result of lower petroleum and natural gas sales prices and higher per unit transportation costs, partially offset by decreased operating costs and a realized gain on financial instruments.



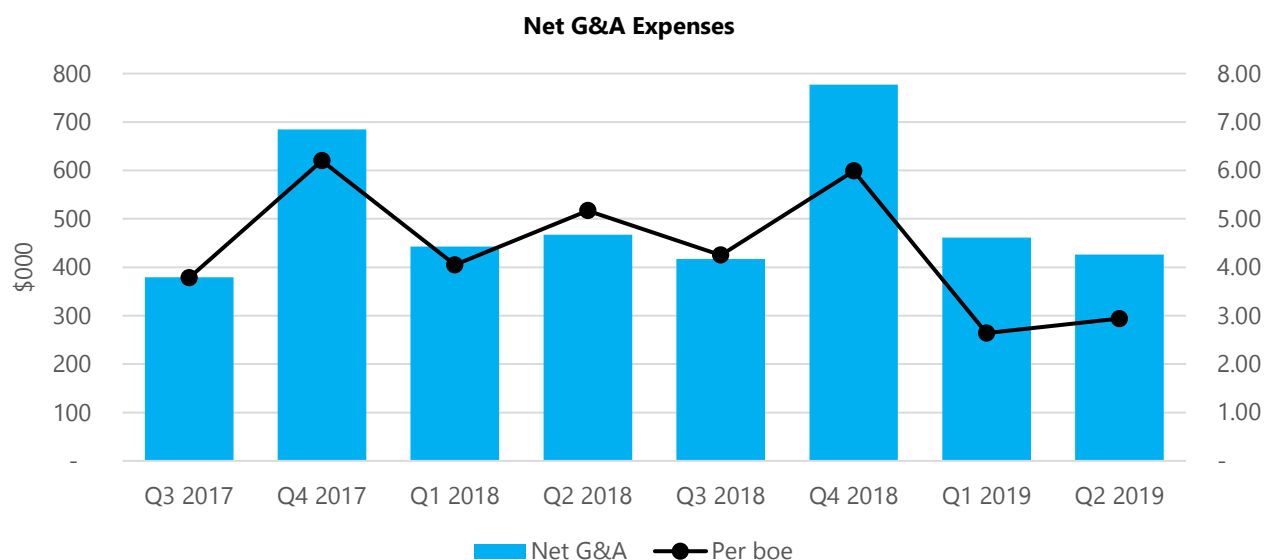
## General and Administrative ("G&A") Expenses

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Gross G&A	606	606	-	1,198	1,178	2
Capitalized G&A and overhead recoveries	(180)	(139)	29	311	(268)	(216)
Net G&A expenses	426	467	(9)	887	910	(3)
Net G&A per boe	2.94	5.17	(43)	2.78	4.56	(39)

Net G&A expenses totaled \$426,000 in the second quarter of 2019, compared to \$467,000 for the second quarter of 2018. The decrease is mainly due to an increase in overhead recoveries. In the first half of 2019, Altura's net G&A expenses were \$887,000, a three percent decrease from the same period in 2018.

Net G&A expenses decreased 43 percent and 39 percent to \$2.94 per boe and \$2.78 per boe for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018 due to increased production volumes.

Altura's policy is to capitalize costs that are directly attributable to investments of property and equipment or exploration and evaluation assets.



The increased G&A observed in the fourth quarter of 2017 and the fourth quarter of 2018 primarily relate to additional costs associated with performance-based compensation.

## Exploration Expense

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Exploration expense	-	-	-	21	-	-
Exploration expense per boe	-	-	-	0.07	-	-

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in the first half of 2019 relate to geophysical consulting incurred by the Corporation to evaluate Crown land sales and freehold lands available for leasing.

## Interest and Financing Expenses

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Credit facility interest and financing expenses	73	80	(9)	124	135	(8)
Lease interest (non-cash)	3	-	-	6	-	-
Interest and financing expenses	76	80	(5)	130	135	(4)
Credit facility interest and financing expenses per boe	0.50	0.88	(43)	0.39	0.67	(42)

Interest and financing expenses totaled \$76,000 and \$130,000 in the three and six months ended June 30, 2019, respectively, compared to \$80,000 and \$135,000 in the same periods of 2018. The decrease in both periods is due to lower average bank debt in the first half of 2019, partially offset by higher interest rates on Altura's credit facility and the recognition of lease interest. Altura's average interest rate in the six months ended June 30, 2019 was 5.5 percent, compared to 4.9 percent in the same period of 2018.

## Share-Based Compensation

(\$000)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Share-based compensation	224	277	(19)	411	551	(25)
Capitalized share-based compensation	(57)	(68)	(16)	(86)	(126)	(32)
Share-based compensation expense	167	209	(20)	325	425	(24)

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation estimates the fair-value of the incentive award based on a Black Scholes model for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. Share-based compensation, net of capitalized amounts, totaled \$167,000 and \$325,000 in the three and six months ended June 30, 2019, respectively, compared to \$209,000 and \$425,000 in the same periods of 2018. The decrease in the three and six months ended June 30, 2019, as compared to the same periods of 2018, reflects a decrease in performance warrant expense due to one-third of the total performance warrants being fully expensed in July 2018 and decreased stock option expense due to Altura's 2015 option grant being fully expensed in November 2018.

Altura's policy is to capitalize costs that are directly attributable to investments of property and equipment or exploration and evaluation assets.

## Depletion, Depreciation and Amortization ("DD&A")

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
DD&A	2,274	1,525	49	4,911	3,263	51
DD&A per boe	15.71	16.92	(7)	15.38	16.36	(6)

Altura uses proved and probable reserves to calculate DD&A expense. For the second quarter of 2019, DD&A increased 49 percent to \$2,274,000 compared to \$1,525,000 in the second quarter of 2018. On a per unit basis, DD&A decreased seven percent to \$15.71 per boe compared to \$16.92 per boe in the second quarter of 2018.

For the six months ended June 30, 2018, DD&A increased 51 percent to \$4,911,000 compared to \$3,263,000 in the same period of the prior year. On a per unit basis, DD&A was \$15.38 per boe compared to \$16.36 per boe in the same period of 2018.

The decreased DD&A per boe in the three and six months ended June 30, 2019 compared to the same periods in 2018 reflects an increase in the Corporation's proved and probable reserves at a lower finding and development cost than the aggregate amount in the first half of 2018.

## Impairment

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less cost to sell. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment.

At June 30, 2019, Altura evaluated its developed and producing ("D&P") assets and exploration and evaluation ("E&E") assets on a cash generating unit basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified, and no impairment was recorded on Altura's D&P and E&E assets for the second quarter of 2019.

## Deferred Taxes

The Corporation recognized a deferred tax expense of \$195,000 and \$593,000 in the three and six months ended June 30, 2019, respectively, compared to \$676,000 and \$676,000 in the same periods of 2018. The deferred tax expense in the three and six months ended June 30, 2019 was primarily due to the pre-tax income recorded in the respective periods.

On June 28, 2019, the Alberta government enacted legislation which reduces the Alberta corporate income tax rate from 12 percent to 8 percent over the period of July 1, 2019 through January 1, 2022. As a result, at June 30, 2019, the Corporation recognized a reduction of \$158,000 in its deferred tax liability.

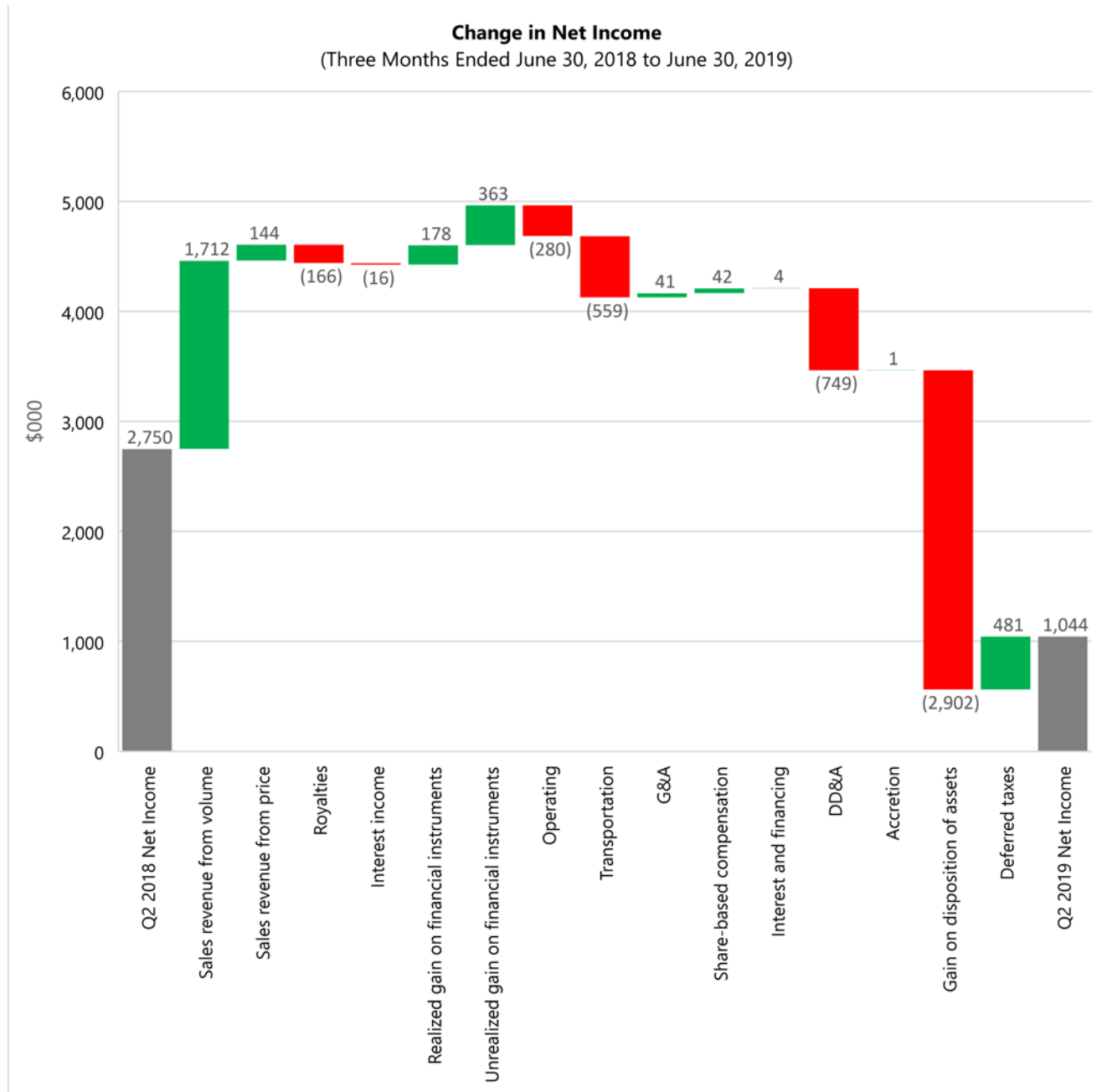
## Net Income and Adjusted Funds Flow

(\$000, except per share amounts and per boe)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Net income	<b>1,044</b>	2,750	(62)	<b>1,973</b>	2,927	(33)
Per share – diluted	<b>0.01</b>	0.02	(50)	<b>0.02</b>	0.03	(33)
Adjusted funds flow <sup>(1)</sup>	<b>3,346</b>	2,285	46	<b>7,499</b>	4,453	68
Per share – diluted <sup>(1)</sup>	<b>0.03</b>	0.02	50	<b>0.07</b>	0.04	75
Adjusted funds flow per boe <sup>(1)</sup>	<b>23.12</b>	25.35	(9)	<b>23.47</b>	22.32	5

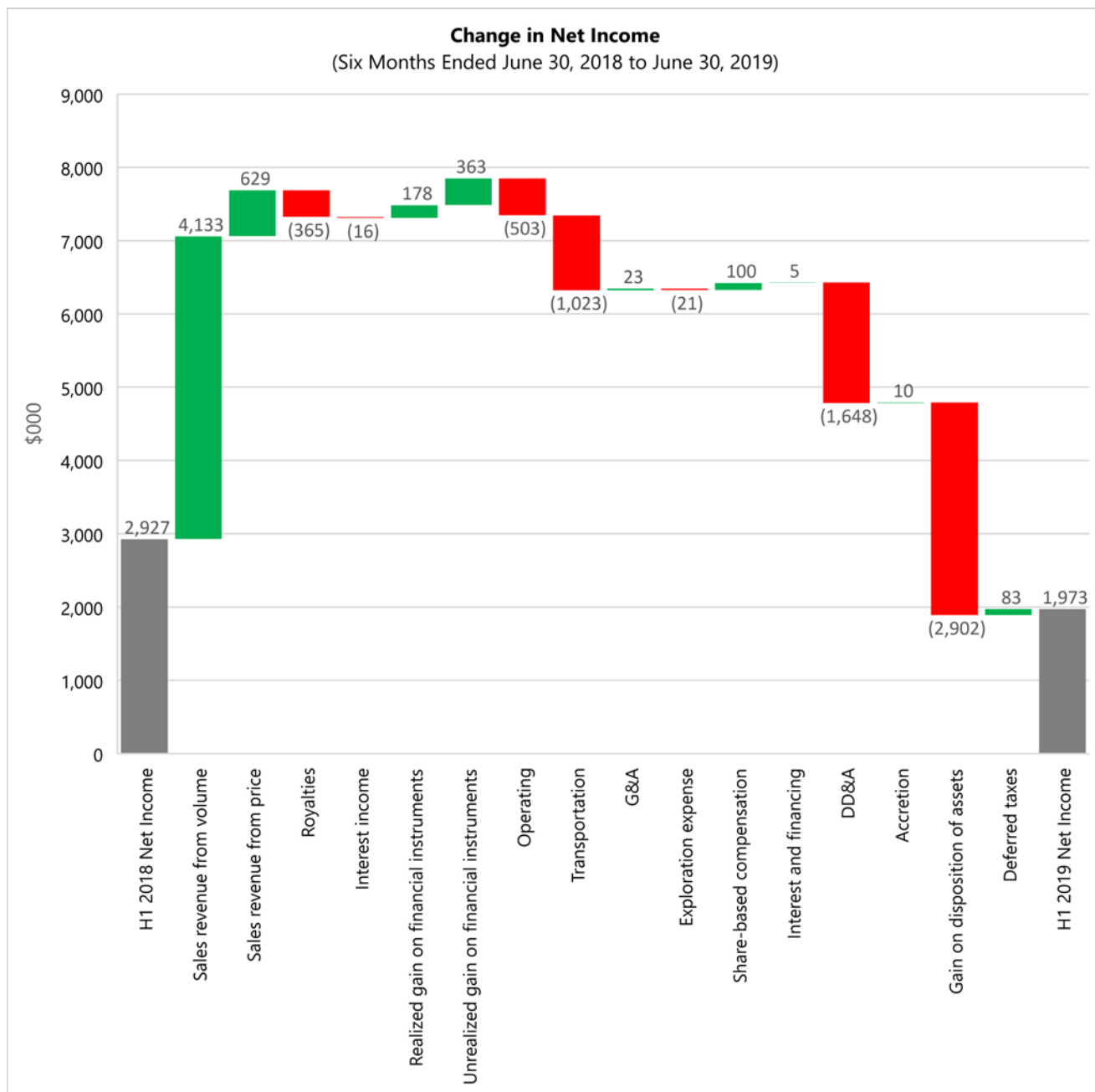
(1) Adjusted funds flow is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

Net Income

In the second quarter of 2019, net income decreased by \$1,706,000 to \$1,044,000 compared to \$2,750,000 in the second quarter of 2018. The decreased net income primarily reflects no gain on disposition of assets and increased royalties, operating costs, transportation costs and DD&A, partially offset by increased sales revenue from production volumes and increased crude oil prices, gains on financial instruments and decreased deferred tax expense.



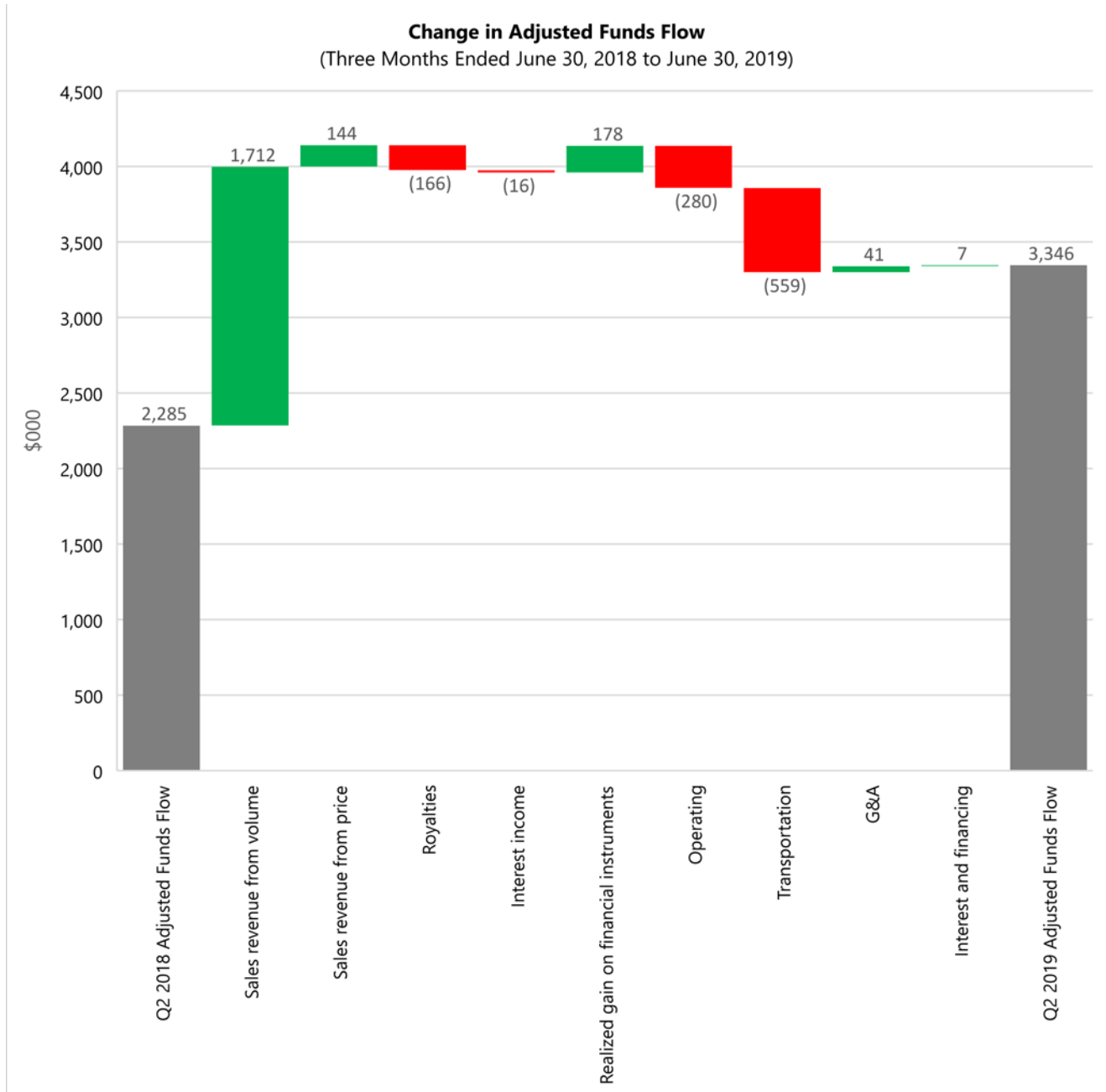
In the first half of 2019, net income decreased by \$954,000 to \$1,973,000 compared to \$2,927,000 in the first half of 2018. The decreased net income primarily reflects no gain on disposition of assets and increased royalties, operating costs, transportation costs and DD&A, partially offset by increased sales revenue from production volumes and increased crude oil prices, lower share-based compensation and gains on financial instruments.



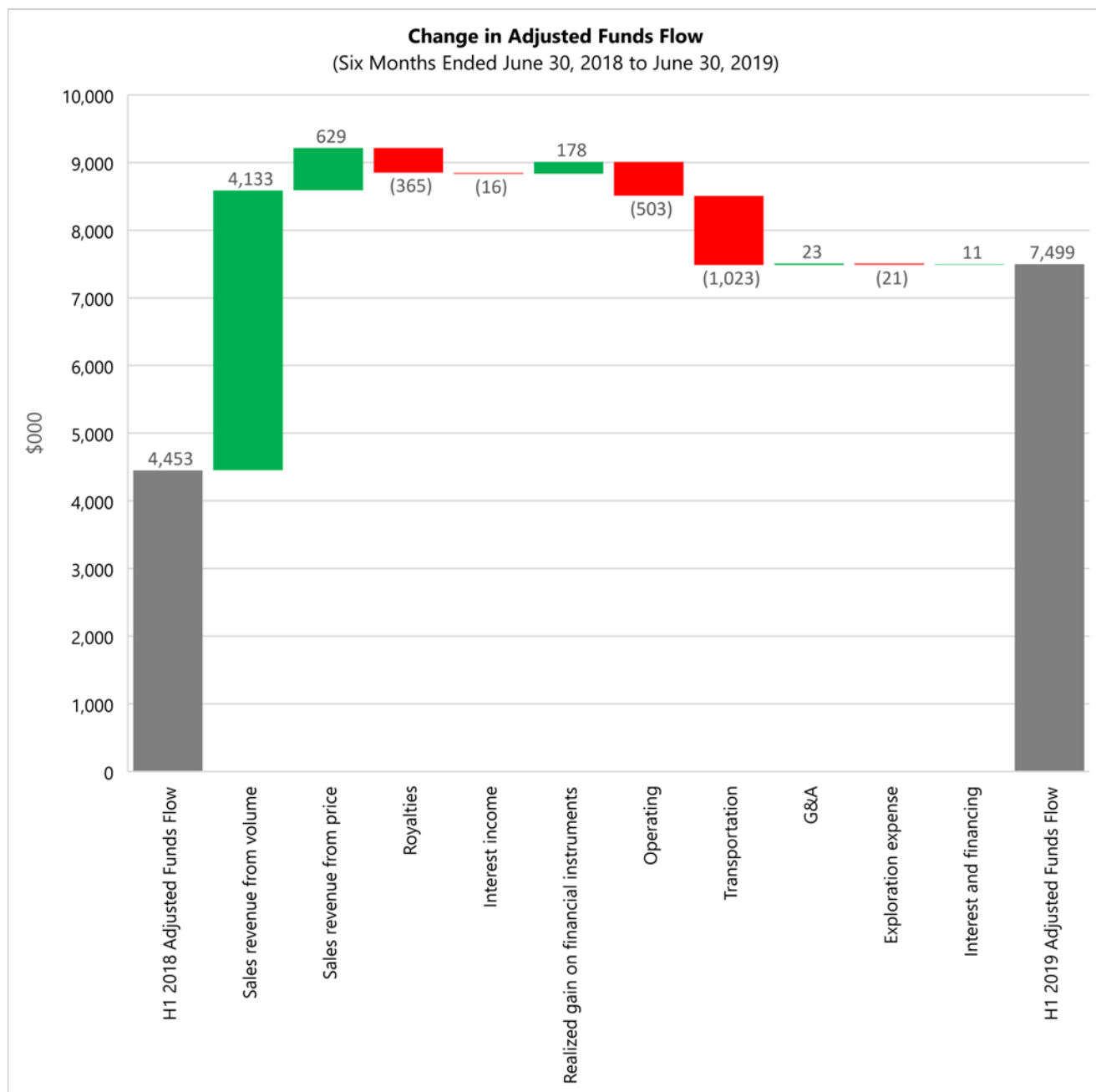


Adjusted Funds Flow

In the second quarter of 2019, adjusted funds flow increased by \$1,061,000 to \$3,346,000 compared to \$2,285,000 in the second quarter of 2018. The increase primarily reflects increased sales revenue from production volumes and increased crude oil prices, a gain on realized financial instruments, partially offset by increased royalties, operating costs, and transportation costs.



In the first half of 2019, adjusted funds flow increased by \$3,046,000 to \$7,499,000 compared to \$4,453,000 in the first half of 2018. The increase primarily reflects increased sales revenue from production volumes and increased crude oil prices, a gain on realized financial instruments, partially offset by increased royalties, operating costs, and transportation costs.



## Capital Expenditures

(\$000)	Three months ended June 30			Six months ended June 30		
	2019	2018	% Change	2019	2018	% Change
Geological and geophysical	26	18	44	36	21	71
Land	713	70	>500	751	193	289
Drilling and completions	3,251	3,830	(15)	3,242	7,817	(59)
Workovers	374	252	48	866	576	50
Equipping and tie-in	672	56	>500	883	419	111
Facilities and pipelines	734	448	64	1,322	2,864	(54)
Other	580	1,670	(65)	703	1,799	(61)
Capital expenditures	6,350	6,344	-	7,803	13,689	(43)
Property dispositions	-	(27,712)	(100)	-	(27,712)	(100)
<b>Total capital expenditures</b>	<b>6,350</b>	<b>(21,368)</b>	<b>(130)</b>	<b>7,803</b>	<b>(14,023)</b>	<b>(156)</b>

In the first half of 2019, Altura invested \$7.8 million on capital expenditures. The Corporation commenced its drilling program in June with the drilling of two extended reach horizontal ("ERH") wells at Leduc-Woodbend and a vertical stratigraphic well in a new area called Entice, located south of Strathmore, Alberta. The two ERH wells were completed for production in July 2019 and brought on production in August 2019. Year-to-date capital investment also included an electrification project at Altura's multi-well battery and associated pad sites, pipeline construction, and a solution gas compressor. In the second quarter of 2019, Altura changed its artificial lift system on six wells to improve run-time efficiencies and limit operating and capital workover events. Due to these changes, the Corporation incurred \$1.0 million related to workovers and equipping costs in the first half of 2019. Additionally, \$0.5 million of well casing and tubulars were pre-purchased in the second quarter for 2019 and are included above in the "Other" category.

## Decommissioning Liability

At June 30, 2019, Altura's decommissioning liability was \$6.5 million (December 31, 2018 - \$5.8 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors (2.0 percent) used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 1.7 percent (December 31, 2018 - 2.2 percent).

Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The change in liability is due to a revision of the risk-free discount rate and accretion expense.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the three and six months ended June 30, 2019, accretion expense totaled \$26,000 and \$54,000 (June 30, 2018 - \$27,000 and \$64,000), respectively.

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 10.53 at August 3, 2019. The LMR is the ratio of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Corporation to pay a deposit to the AER. Additionally, Altura's revolving operating demand loan includes a covenant requiring the Corporation to maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. Altura's LLR with the AER was 10.53 at August 3, 2019, consistent with its LMR.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **Working Capital**

The Corporation had an adjusted working capital deficit of \$5.2 million at June 30, 2019 compared to an adjusted working capital deficit of \$4.8 million at December 31, 2018. At June 30, 2019, the major components of Altura's current assets were accounts receivable (78 percent) to be received from its oil and gas marketers in respect to June 2019 production. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectible. Current liabilities largely consist of trade and joint interest payables (14 percent) and accrued liabilities (65 percent) related to the Corporation's operations and bank debt (20 percent). The Corporation manages its working capital using a combination of its cash flow from operating activities and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash, if any, in a short-term interest-bearing account with its lender.

### **Credit Facility**

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in April 2019 based on the Corporation's December 31, 2018 reserve report and the borrowing base was increased to \$10.0 million. The Credit Facility is payable on demand and the interest rate was equal to the Lender's prime rate plus 1.75 percent per annum on the outstanding principal, payable monthly.

Altura is subject to certain reporting and financial covenants including:

- the Corporation is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility is added to current assets.
- the Corporation will, at all times, maintain hedging agreements covering no less than 300 bbl/d oil (Western Canadian Select) for no less than the succeeding nine-month period, on a rolling basis; and
- the Corporation will maintain a LLR in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at June 30, 2019, the working capital ratio as defined was 1.78:1 (December 31, 2018 – 1.29:1) and the Corporation was compliant with the hedging covenant and the LLR covenant.

As at June 30, 2019, \$1.5 million (December 31, 2018 - \$2.1 million) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for \$160,000 (December 31, 2018 - \$160,000). The next review date for the Credit Facility has been scheduled for May 31, 2020 but may be set at an earlier or later date at the sole discretion of the Lender.

### **Shareholders' Equity**

At June 30, 2019 there were 108,920,973 common shares outstanding, 9,749,879 performance warrants outstanding and 9,770,000 stock options outstanding. The number of common shares and performance warrants remain unchanged from December 31, 2018.

At August 14, 2019 the number of common shares, performance warrants and stock options outstanding remain unchanged from June 30, 2019.

## Liquidity

(\$000)	June 30, 2019	December 31, 2018
Current assets	2,688	854
Fair value of financial instruments included in current assets	(363)	-
Current liabilities	(7,485)	(5,674)
Adjusted working capital deficit <sup>(1)</sup>	(5,160)	(4,820)
Credit Facility capacity <sup>(2)</sup>	9,840	5,840
Available funding	4,680	1,020

(1) Adjusted working capital deficit is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

(2) As at June 30, 2019, \$160,000 in letters of credit were issued and outstanding (December 31, 2018 - \$160,000).

At June 30, 2019, Altura had \$4.7 million of available funding capacity from its Credit Facility (December 31, 2018 - \$1.0 million).

## Net debt

Net debt as at June 30, 2019 and December 31, 2018 is calculated as follows:

(\$000)	June 30, 2019	December 31, 2018
Adjusted working capital deficit <sup>(1)</sup>	5,160	4,820
Current portion of lease liabilities	(36)	-
Current portion of decommissioning liability	(15)	(15)
Net debt <sup>(1)</sup>	5,109	4,805
Net debt to annualized adjusted funds flow <sup>(1)(2)</sup>	0.4	1.5

(1) Adjusted working capital deficit, net debt and adjusted funds flow are non-GAAP measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

(2) Refer to Note 12 "Capital Management" in the financial statements regarding net debt to annualized adjusted funds flow.

The Corporation's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. Altura's net debt of \$5.1 million as at June 30, 2019 was comparable to \$4.8 million at December 31, 2018 as adjusted funds flow approximated capital expenditures in the first half of 2019. The increased adjusted funds flow compared to the fourth quarter of 2018 resulted in net debt to annualized adjusted funds flow improving to 0.4 times at June 30, 2019 compared to 1.5 times at December 31, 2018.

## Capital Resources

Altura's 2019 capital expenditure budget of \$15.0 million has been reduced by \$1.5 million to \$13.5 million, as highlighted in the "2019 Guidance" section of this MD&A. As at June 30, 2019, \$7.8 million has been invested, with \$5.7 million forecasted for the second half of 2019. Altura expects to have the liquidity to fund the capital program through a combination of cash flow from operating activities and available funding from its Credit Facility.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Altura has contractual obligations in the normal course of operations including operating agreements, transportation commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Altura's cash flows in an ongoing manner.

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2019			2018			2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>OPERATING</b>								
Average daily production								
Heavy oil (bbls/d)	1,016	1,404	1,044	805	478	547	544	274
Medium oil (bbls/d)	-	68	46	51	271	408	414	624
Natural gas (Mcf/d)	2,914	2,510	1,699	1,128	1,309	1,336	1,286	1,045
NGLs (bbls/d)	88	47	38	23	23	37	30	16
Total (boe/d)	1,591	1,939	1,412	1,067	991	1,215	1,202	1,088
Average realized sales price								
Heavy oil (\$/bbl)	62.83	51.62	25.28	56.59	58.83	45.58	48.54	46.50
Medium oil (\$/bbl)	-	48.97	51.44	66.74	67.64	51.06	55.73	47.61
Natural gas (\$/Mcf)	1.30	2.06	1.74	1.23	1.32	2.14	1.81	1.71
NGLs (\$/bbl)	24.23	37.16	40.19	51.30	51.68	50.44	45.46	49.54
Total (\$/boe)	43.89	42.71	23.57	48.29	49.87	41.58	44.22	41.38
(\$/boe)								
Petroleum and natural gas sales	43.89	42.71	23.57	48.29	49.87	41.58	44.22	41.38
Realized gain on financial instruments	1.23	-	-	-	-	-	-	-
Royalty expenses	(4.08)	(3.98)	(2.40)	(4.57)	(4.69)	(4.54)	(3.24)	(3.70)
Operating costs	(9.56)	(8.18)	(6.16)	(7.09)	(12.26)	(11.01)	(9.72)	(10.01)
Transportation costs	(4.92)	(3.70)	(2.45)	(2.17)	(1.70)	(1.65)	(1.86)	(2.65)
Operating netback <sup>(1)</sup>	26.56	26.85	12.56	34.46	31.22	24.38	29.40	25.02
General and administrative	(2.94)	(2.64)	(5.99)	(4.25)	(5.17)	(4.05)	(6.20)	(3.78)
Exploration expense	-	(0.12)	(0.04)	(0.21)	-	-	-	-
Credit facility interest and financing expense	(0.50)	(0.29)	(0.18)	(0.03)	(0.88)	(0.51)	(0.38)	(0.06)
Interest income	-	-	-	0.34	0.18	-	-	-
Adjusted funds flow per boe <sup>(1)</sup>	23.12	23.80	6.35	30.31	25.35	19.82	22.82	21.18
<b>FINANCIAL</b> (\$000, except per share)								
Petroleum and natural gas sales	6,353	7,453	3,062	4,741	4,497	4,547	4,893	4,143
Adjusted funds flow <sup>(1)</sup>	3,346	4,153	826	2,977	2,285	2,168	2,526	2,119
Per share – diluted <sup>(1)</sup>	0.03	0.04	0.01	0.03	0.02	0.02	0.02	0.02
Cash flow from operating activities	3,568	2,290	4,200	831	2,313	2,443	1,940	2,545
Per share – diluted	0.03	0.02	0.04	0.01	0.02	0.02	0.02	0.02
Net income (loss)	1,044	929	(984)	750	2,750	177	(1,032)	322
Per share – diluted <sup>(2)</sup>	0.01	0.01	(0.01)	0.01	0.02	-	(0.01)	-
(\$000)								
Capital expenditures	6,350	1,453	3,050	16,717	6,344	7,345	3,083	6,439
Property acquisitions/(dispositions)	-	-	986	2,637	(27,712)	-	(355)	-
Total assets	59,719	55,704	54,023	54,793	49,957	55,973	50,807	49,848
Net debt (working capital surplus) <sup>(1)</sup>	5,109	2,105	4,805	1,872	(14,761)	8,495	3,663	2,810
Shareholders' equity	44,251	42,983	41,867	42,633	41,643	38,616	38,165	38,933
Common shares outstanding (000)								
Weighted average for the period - basic <sup>(2)</sup>	108,921	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted <sup>(2)</sup>	110,503	110,430	110,260	112,281	110,546	109,133	109,570	108,922
Shares outstanding, end of period	108,921	108,921	108,921	108,921	108,921	108,921	108,921	108,921

(1) Adjusted funds flow, net debt, and operating netback are non-GAAP measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

(2) Basic weighted average shares are used to calculate diluted per share amounts when the Corporation is in a loss position.

Quarter over quarter changes in revenue from the third quarter of 2017 are the result of changes in oil and gas volumes sold as well as changes in Altura's average realized price. The decline in production in the second quarter of 2018 is a result of the disposition of assets in east central Alberta and Saskatchewan on May 31, 2018. Production volumes increased in the third and fourth quarters of 2018 and the first quarter of 2019 with seven new Leduc-Woodbend wells being brought on production

in the second half of 2018 and one well being brought on production in the first quarter of 2019. Production volumes declined in the second quarter of 2019 as no new wells were brought on production and Altura had decreased well run-time efficiency due to pump failures. Realized crude oil prices declined sharply in the fourth quarter of 2018 due to wide Canadian oil differentials but recovered in the first quarter of 2019 as Canadian oil differentials narrowed as a result of the Alberta government mandatory curtailment.

Capital expenditures in the first quarter of 2018 included drilling two wells, pipeline construction costs and facility equipment purchases. In the second and third quarters of 2018, Altura drilled eight wells, completed seven wells and constructed a multi-well battery at Leduc-Woodbend. In the fourth quarter of 2018, Altura's capital investments included one well completion and facility work at the previously commissioned multi-well battery. Capital expenditures in the first half of 2019 included drilling two horizontal wells at Leduc-Woodbend and one vertical well in a new area. Additionally, capital investment in the first half of 2019 included an electrification project at Altura's multi-well battery and associated pad sites, pipeline construction, and a solution gas compressor. In the second quarter of 2019, Altura changed its artificial lift system on six wells to improve run-time efficiencies and limit operating and capital workover events.

In the fourth quarter of 2017, Altura recorded an impairment expense for \$1.5 million resulting in a loss. In the second quarter of 2018, Altura recorded net income of \$2.8 million mainly due to a gain on disposition of assets, partially offset by a deferred tax expense. In the third quarter of 2018, the Corporation recorded net income of \$0.8 million and in the fourth quarter of 2018 Altura recorded a net loss of \$1.0 million, due mainly to the decline in realized oil prices. In the first and second quarters of 2019, Altura recorded net income of \$0.9 million and \$1.0 million, respectively, from increased production volumes and higher crude oil prices.

## **OFF BALANCE SHEET ARRANGEMENTS**

Altura does not have any off-balance sheet arrangements that would result in a material change to its financial position, performance or adjusted funds flow during the reporting periods.

## **RELATED PARTY TRANSACTIONS**

Other than the payment of compensation to key management personnel and the board of directors, the Corporation has not entered into any related party transactions.

## **CRITICAL ACCOUNTING ESTIMATES**

The Corporation's financial and operating results incorporate certain estimates including:

- estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and expenses have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A that are based on estimates of oil and gas reserves that the Corporation expects to recover in the future, commodity prices, estimated future salvage values and estimated future capital costs;
- estimated value of decommissioning liabilities that are dependent upon estimates of future costs, timing of expenditures and the risk-free rate;
- estimated income and other tax liabilities requiring interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time;
- estimated share-based compensation expense using the Black-Scholes option pricing model; and
- estimated recoverable amounts are based on estimated proved plus probable reserves, production rates, oil and gas prices, future costs, discount rates and other relevant assumptions.

The Corporation has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates

are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

## **RISK FACTORS & RISK MANAGEMENT**

Altura monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Altura maintains a level of liability, and property insurance, which is believed to be adequate for the Corporation's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "Forward-Looking Information" in this MD&A and "Risk Factors" in Altura's most recently filed annual information form for additional information.

## **IMPACT OF NEW ENVIRONMENTAL REGULATIONS**

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

## **CHANGES IN ACCOUNTING POLICIES**

On January 1, 2019, Altura adopted IFRS 16, "Leases" ("IFRS 16"). The Corporation has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Corporation's financial statements have not been restated. On adoption, Altura elected to use the following practical expedient permitted under the standard:

- Short-term leases and leases of low-value assets are not recognized on the balance sheet and lease payments are instead recognized in the financial statements as incurred.

The impacts of adoption of IFRS 16 as at January 1, 2019 was a \$241,000 increase to right-of-use ("ROU") assets with a corresponding increase to lease liabilities. The ROU assets and lease liabilities were measured at the present value of the remaining lease payments, discounted using Altura's weighted average incremental borrowing rate of 5.6 percent, as at January 1, 2019.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate.

Altura's adjusted funds flow was impacted by the adoption of IFRS 16. Where lease payments made for certain operating items were previously included in G&A, these payments are now reflected as payments of interest and lease liabilities, which increases adjusted funds flow. As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable.



## ADVISORIES

### Non-GAAP Measures

This MD&A and second quarter report contains references to measures used in the oil and natural gas industry such as "adjusted funds flow", "adjusted working capital deficit", "net debt", and "operating netback". The data presented in this MD&A and second quarter report is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. These reported non-GAAP measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used, they should be given careful consideration by the reader.

#### Adjusted Funds Flow

Altura considers adjusted funds flow to be a key measure of performance as it demonstrates the Corporation's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Management believes that such a measure provides a useful assessment of Altura's business on a continuing basis by eliminating certain non-cash charges, transaction costs, if any, and actual settlements of decommissioning obligations, the timing of which, in the opinion of management, is discretionary.

Altura reports adjusted funds flow in total, on a per share basis and on a per boe basis. The Corporation's adjusted funds flow is disclosed in the "Net Income and Adjusted Funds Flow" section of this MD&A on page 14. The following schedule sets out the reconciliation of net income to adjusted funds flow and cash flow from operating activities for the reporting period and the comparable prior period:

(\$000)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Net income	1,044	2,750	1,973	2,927
Adjusted for the following non-cash items				
Deferred tax expense	195	676	593	676
Depletion, depreciation and amortization	2,274	1,525	4,911	3,263
Accretion of decommissioning liability	26	27	54	64
Share-based compensation	167	209	325	425
Gain on disposition of assets	-	(2,902)	-	(2,902)
Lease interest	3	-	6	-
Unrealized gain on financial instruments	(363)	-	(363)	-
<b>Adjusted funds flow</b>	<b>3,346</b>	<b>2,285</b>	<b>7,499</b>	<b>4,453</b>
Changes in non-cash operating working capital	222	425	(1,641)	700
Transaction costs on property disposition	-	(397)	-	(397)
<b>Cash flow from operating activities</b>	<b>3,568</b>	<b>2,313</b>	<b>5,858</b>	<b>4,756</b>

#### Adjusted Working Capital Deficit and Net Debt

Management views adjusted working capital deficit and net debt as key industry benchmarks and measures to assess the Corporation's financial position and liquidity. Adjusted working capital deficit is calculated as current assets, excluding the Fair Value of Financial Instruments less current liabilities, excluding the Fair Value of Financial Instruments. Net debt is calculated as adjusted working capital deficit less the current portion of lease liabilities and less the current portion of the decommissioning liability. Management has excluded the current portion of the decommissioning liability as this is an estimate based on management's assumptions and subject to volatility based on changes in cost and timing estimates, the risk-free discount rate and inflation rate. Altura's adjusted working capital deficit and net debt are disclosed in the "Liquidity" and "Net Debt" sections of this MD&A on page 21.

#### Operating Netback

Altura calculates operating netback on a per boe basis as petroleum and natural gas sales plus realized gain on financial instruments less royalties, operating and transportation costs. Management feels that operating netback is a key industry benchmark and a measure of performance for Altura that provides investors with information that is commonly used by other

crude oil and natural gas producers. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis. Altura's operating netback is disclosed in the "Operating Netback" section of this MD&A on page 11.

### **Barrels of Oil Equivalent**

The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. The boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

### **Forward-looking Information**

This MD&A and second quarter report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and second quarter report contains forward-looking information and statements pertaining to:

- the 2019 capital expenditure program;
- forecasted average production and percent growth for 2019; and
- plans to implement a waterflood pilot project in 2019.

The forward-looking information and statements contained in this MD&A and second quarter report reflect several material factors and expectations and assumptions of Altura including, without limitation:

- the continued performance of Altura's oil and gas properties in a manner consistent with its past experiences;
- that Altura will continue to conduct its operations in a manner consistent with past operations;
- the general continuance of current industry conditions;
- the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes;
- the accuracy of the estimates of Altura's reserves and resource volumes;
- certain commodity price and other cost assumptions;
- the continued availability of oilfield services; and
- the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures.

Altura believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes.

The forward-looking information and statements included in this MD&A and second quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation:

- changes in commodity prices;
- changes in the demand for or supply of Altura's products;
- unanticipated operating results or production declines;
- changes in tax or environmental laws, royalty rates or other regulatory matters;
- changes in development plans by Altura or by third party operators, if any, of Altura's properties;
- increased debt levels or debt service requirements;
- inaccurate estimation of Altura's oil and gas reserve and resource volumes;

- limited, unfavorable or a lack of access to capital markets;
- increased costs;
- a lack of adequate insurance coverage;
- the impact of competitors; and
- certain other risks detailed from time to time in Altura’s public documents.

The forward-looking information and statements contained in this MD&A and second quarter report speak only as of the date of this MD&A and second quarter report, and Altura does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(\$000)	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets		
Accounts receivable (note 12)	2,093	650
Prepaid expenses and deposits	232	204
Fair value of financial instruments (note 12)	363	-
	<b>2,688</b>	854
Exploration and evaluation (note 4)	984	-
Property and equipment (note 5)	55,827	53,169
Right-of-use assets (notes 3 and 6)	220	-
<b>Total assets</b>	<b>59,719</b>	54,023
<b>LIABILITIES</b>		
Current liabilities		
Bank debt (note 7)	1,465	2,144
Accounts payable and accrued liabilities	5,969	3,515
Current portion of lease liabilities (notes 3 and 8)	36	-
Current portion of decommissioning liability (note 9)	15	15
	<b>7,485</b>	5,674
Lease liabilities (notes 3 and 8)	211	-
Decommissioning liability (note 9)	6,453	5,756
Deferred taxes	1,319	726
<b>Total liabilities</b>	<b>15,468</b>	12,156
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	37,712	37,712
Performance warrants (note 10e)	2,392	2,176
Contributed surplus	4,139	3,944
Retained earnings (deficit)	8	(1,965)
<b>Total shareholders' equity</b>	<b>44,251</b>	41,867
<b>Total liabilities and shareholders' equity</b>	<b>59,719</b>	54,023

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (unaudited)

(\$000, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>REVENUE</b>				
Petroleum and natural gas sales (note 11)	6,353	4,497	13,806	9,044
Royalties	(589)	(423)	(1,284)	(919)
Interest income	-	16	-	16
Realized gain on financial instruments	178	-	178	-
Unrealized gain on financial instruments	363	-	363	-
	<b>6,305</b>	4,090	<b>13,063</b>	8,141
<b>EXPENSES</b>				
Operating	1,385	1,105	2,812	2,309
Transportation	712	153	1,357	334
General and administrative	426	467	887	910
Exploration expense	-	-	21	-
Share-based compensation (note 10)	167	209	325	425
Interest and financing charges	76	80	130	135
Depletion, depreciation and amortization (notes 5 and 6)	2,274	1,525	4,911	3,263
Accretion of decommissioning liability (note 9)	26	27	54	64
	<b>5,066</b>	3,566	<b>10,497</b>	7,440
<b>OTHER INCOME</b>				
Gain on disposition of assets (note 5)	-	2,902	-	2,902
Income before taxes	<b>1,239</b>	3,426	<b>2,566</b>	3,603
Deferred tax expense	195	676	593	676
Net income and comprehensive income	<b>1,044</b>	2,750	<b>1,973</b>	2,927
Net income per share, (note 10d)				
Basic	<b>0.01</b>	0.03	<b>0.02</b>	0.03
Diluted	<b>0.01</b>	0.02	<b>0.02</b>	0.03

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

(\$000)	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2017	37,712	1,605	3,506	(4,658)	38,165
Share-based compensation expense (note 10)	-	269	156	-	425
Share-based compensation capitalized (note 10)	-	64	62	-	126
Net income for period	-	-	-	2,927	2,927
<b>Balance, June 30, 2018</b>	<b>37,712</b>	<b>1,938</b>	<b>3,724</b>	<b>(1,731)</b>	<b>41,643</b>
Balance, December 31, 2018	37,712	2,176	3,944	(1,965)	41,867
Share-based compensation expense (note 10)	-	183	142	-	325
Share-based compensation capitalized (note 10)	-	33	53	-	86
Net income for period	-	-	-	1,973	1,973
<b>Balance, June 30, 2019</b>	<b>37,712</b>	<b>2,392</b>	<b>4,139</b>	<b>8</b>	<b>44,251</b>

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(\$000)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net income for period	1,044	2,750	1,973	2,927
Items not involving cash:				
Deferred tax expense	195	676	593	676
Depletion, depreciation and amortization (notes 5 and 6)	2,274	1,525	4,911	3,263
Accretion of decommissioning liability (note 9)	26	27	54	64
Lease interest	3	-	6	-
Share-based compensation (note 10)	167	209	325	425
Unrealized gain on financial instruments	(363)	-	(363)	-
Gain on disposition of assets	-	(2,902)	-	(2,902)
Transaction costs on property dispositions	-	(397)	-	(397)
Change in non-cash working capital (note 14)	222	425	(1,641)	700
	<b>3,568</b>	<b>2,313</b>	<b>5,858</b>	<b>4,756</b>
<b>CASH FLOW USED IN FINANCING ACTIVITIES</b>				
Decrease in bank debt (note 7)	(426)	(6,381)	(679)	(4,252)
	<b>(426)</b>	<b>(6,381)</b>	<b>(679)</b>	<b>(4,252)</b>
<b>CASH FLOW FROM (USED IN) INVESTING ACTIVITIES</b>				
Property and equipment expenditures	(5,381)	(6,274)	(6,834)	(13,151)
Exploration and evaluation asset expenditures	(969)	(70)	(969)	(193)
Property dispositions	-	27,712	-	27,712
Change in non-cash working capital (note 14)	3,208	2,752	2,624	5,180
	<b>(3,142)</b>	<b>24,120</b>	<b>(5,179)</b>	<b>19,548</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	-	20,052	-	20,052
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	-	-	-	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	-	20,052	-	20,052
<b>Cash and cash equivalents consists of:</b>				
Cash in bank account	-	5,052	-	5,052
Cash in short-term investments	-	15,000	-	15,000
		20,052	-	20,052
Cash interest paid	73	80	124	135

See accompanying notes to the interim condensed consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

As at and for the three and six months ended June 30, 2019 and 2018

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## 1. REPORTING ENTITY

Altura Energy Inc. ("Altura" or the "Corporation") is an oil and gas exploration and production company with producing assets in central Alberta. The Corporation is headquartered in Calgary and is an Alberta-based reporting entity whose shares are listed on the TSX Venture Exchange under the symbol: ATU.V. Altura's principal place of business is located at 2500, 605 5th Avenue SW, Calgary, Alberta, T2P 3H5.

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

These interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2018, except as described below in note 3. In the opinion of management, these financial statements contain all adjustments necessary to present fairly Altura's financial position as at June 30, 2019 and the results of its operations and cash flows for the three and six months ended June 30, 2019 and 2018. Certain information and disclosures normally included in the notes to the audited consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on August 14, 2019.

### (b) Basis of Measurement and Principles of Consolidation

These financial statements have been prepared on a historical cost basis and include the accounts of Altura and its wholly-owned subsidiary. All inter-entity transactions have been eliminated.

### (c) Functional and Presentation Currency

The financial statements are presented in Canadian dollars, which is the Corporation and its subsidiary's functional currency.

### (d) Change in Presentation

Certain comparative information has been re-classified to conform to current presentation.

### (e) Use of Estimates and Judgement

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates.



Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate as discussed in note 3.

In preparing the financial statements, the judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2018, except for lease liabilities.

### 3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2019, Altura adopted IFRS 16, "Leases" ("IFRS 16"). The Corporation has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Corporation's financial statements have not been restated. On adoption, Altura elected to use the following practical expedient permitted under the standard:

- Short-term leases and leases of low-value assets are not recognized on the balance sheet and lease payments are instead recognized in the financial statements as incurred.

The impacts of adoption of IFRS 16 as at January 1, 2019 was a \$241,000 increase to ROU assets with a corresponding increase to lease liabilities. The ROU assets and lease liabilities were measured at the present value of the remaining lease payments, discounted using Altura's weighted average incremental borrowing rate of 5.6 percent, as at January 1, 2019.

#### *Reconciliation of Commitments to Lease Liabilities*

The following table provides a reconciliation of the contractual obligations and commitments as at December 31, 2018 to the Corporation's lease liabilities as at January 1, 2019:

(\$000)	<b>Total</b>
Commitments as at December 31, 2018	<b>894</b>
Less:	
Non-Lease Components	<b>(603)</b>
Lease liabilities commitments as at December 31, 2018	<b>291</b>
Impact of discounting	<b>(50)</b>
Lease liabilities as at January 1, 2019	<b>241</b>

The additional disclosures required by IFRS 16 are detailed in notes 2, 6 and 8.

#### *Leases Policy*

The following accounting policy is applicable from January 1, 2019:

The Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a ROU asset and a corresponding lease liability at the date on which the leased asset is available for use by the Corporation. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not readily available.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net income over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in net income (loss) if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the commencement date.

The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in net income (loss) on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Corporation will remeasure the lease liability using the Corporation's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net income (loss) that reflects the proportionate decrease in scope.

#### 4. EXPLORATION AND EVALUATION

The following table reconciles Altura's E&E assets:

(\$000)	Total
Balance, December 31, 2017	<b>4,517</b>
Additions	719
Acquisition	603
Disposition	(1,071)
Transfer to property and equipment (note 5)	(4,768)
<b>Balance, December 31, 2018</b>	<b>-</b>
Additions	984
<b>Balance, June 30, 2019</b>	<b>984</b>

E&E assets consist of the Corporation's projects that have yet to be established as technically feasible and commercially viable. Additions represent Altura's share of costs incurred on E&E assets during the periods. E&E asset additions in the three and six months ended June 30, 2019, include land costs, geological and geophysical costs and drilling costs related to a vertical stratigraphic well that was drilled and logged in a new area called Entice, south of Strathmore, Alberta. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$51,000 in the three and six months ended June 30, 2019 (June 30, 2018 – \$nil).

## 5. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

<b>Cost</b> (\$000)	<b>Developed and Producing Assets</b>	<b>Administrative Assets</b>	<b>Total</b>
Balance, December 31, 2017	62,100	48	62,148
Additions	32,830	130	32,960
Acquisitions	3,983	-	3,983
Dispositions	(47,622)	-	(47,622)
Transfers from E&E assets (note 4)	4,768	-	4,768
Change in decommissioning costs	4,145	-	4,145
Balance, December 31, 2018	60,204	178	60,382
Additions	6,901	4	6,905
Change in decommissioning costs	643	-	643
<b>Balance, June 30, 2019</b>	<b>67,748</b>	<b>182</b>	<b>67,930</b>
<b>Depletion, depreciation and impairment</b>			
(\$000)			
Balance, December 31, 2017	(18,579)	(25)	(18,604)
Depletion, depreciation and amortization	(6,885)	(21)	(6,906)
Dispositions	18,297	-	18,297
Balance, December 31, 2018	(7,167)	(46)	(7,213)
Depletion, depreciation and amortization	(4,874)	(16)	(4,890)
<b>Balance, June 30, 2019</b>	<b>(12,041)</b>	<b>(62)</b>	<b>(12,103)</b>
<b>Carry amounts</b>			
(\$000)			
As at December 31, 2018	53,037	132	53,169
<b>As at June 30, 2019</b>	<b>55,707</b>	<b>120</b>	<b>55,827</b>

Estimated future development costs of \$93.0 million (December 31, 2018 – \$95.5 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$149,000 and \$289,000 in the three and six months ended June 30, 2019 (June 30, 2018 – \$202,000 and 384,000), respectively.

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets, to an unrelated third party, in east central Alberta and Saskatchewan. Consideration for the disposed assets totaled \$27,265,000 of cash, net of customary post-closing adjustments and transaction costs. The Corporation recorded a gain of \$2,902,000 on the disposition in the three and six months ended June 30, 2018.

## 6. RIGHT-OF-USE ASSETS

The following table reconciles Altura's ROU assets associated with its office space and office equipment:

<b>Cost (\$000)</b>	<b>Total</b>
<b>Balance, January 1 and June 30, 2019</b> (note 3)	<b>241</b>
<b>Depreciation (\$000)</b>	
Balance, January 1, 2019	-
Depreciation	(21)
<b>Balance, June 30, 2019</b>	<b>(21)</b>
<b>Carry amounts (\$000)</b>	
As at January 1, 2019	241
<b>As at June 30, 2019</b>	<b>220</b>

## 7. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in April 2019 based on the Corporation's December 31, 2018 reserve report and the borrowing base was increased to \$10.0 million. The Credit Facility is payable on demand and the interest rate was equal to the Lender's prime rate plus 1.75 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.75 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

The Credit Facility is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a \$30.0 million debenture with a first floating charge over all assets of the Corporation.

Altura is subject to certain reporting and financial covenants including:

- the Corporation is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility is added to current assets.
- the Corporation will, at all times, maintain hedging agreements covering no less than 300 bbl/d oil (Western Canadian Select) for no less than the succeeding nine-month period, on a rolling basis; and
- the Corporation will maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at June 30, 2019, the working capital ratio as defined was 1.78:1 (December 31, 2018 – 1.29:1) and the Corporation was compliant with the hedging covenant and the LLR covenant.

As at June 30, 2019, \$1.5 million (December 31, 2018 - \$2.1 million) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for \$160,000 (December 31, 2018 - \$160,000). The next review date for the Credit Facility has been scheduled for May 31, 2020 but may be set at an earlier or later date at the sole discretion of the Lender.

## 8. LEASE LIABILITIES

Altura has the following future commitments associated with its office space and office equipment obligations:

(\$000)	As at June 30, 2019
Less than one year	12
2020	48
2021–2022	111
2023–2024	119
Total lease payments	290
Impact of discounting	(43)
Lease liabilities	247
Payments due within one year	36
Payments due beyond one year	211

## 9. DECOMMISSIONING LIABILITY

The Corporation's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Altura estimates the total undiscounted and un-escalated amount of cash flows required to settle its decommissioning obligations as at June 30, 2019 to be approximately \$6.0 million (December 31, 2018 – \$5.9 million) with the majority of costs anticipated to be incurred between 2030 and 2036. A risk-free discount rate of 1.7 percent (December 31, 2018 – 2.2 percent) and an inflation rate of 2.0 percent (December 31, 2018 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Six months ended June 30, 2019	Year ended December 31, 2018
Balance, beginning of period	5,771	6,578
Additions	205	923
Liabilities disposed	-	(6,099)
Liabilities acquired	-	1,055
Change in estimates <sup>(1)</sup>	438	800
Revaluation of liabilities acquired <sup>(2)</sup>	-	2,422
Decommissioning liabilities settled	-	(17)
Accretion	54	109
Balance, end of period	6,468	5,771
Expected to be incurred within one year	15	15
Expected to be incurred beyond one year	6,453	5,756

- (1) The change in estimates consists of a change in the risk-free discount rate of \$480,000 (December 31, 2018 - \$153,000) and a change in abandonment and remediation cost estimates and future abandonment dates totaling a credit of \$42,000 (December 31, 2018 - \$647,000).
- (2) Amount relates to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisitions, decommissioning obligations were estimated using a credit adjusted discount rate of 10%.

## 10. SHARE CAPITAL

(a) Authorized:

- Unlimited number of voting common shares.
- Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance.

(b) Issued and outstanding:

	Number of common shares	Amount (\$000)
<b>Balance, December 31, 2017, December 31, 2018, and June 30, 2019</b>	<b>108,920,973</b>	<b>37,712</b>

(c) Stock options:

The Corporation has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10 percent of the outstanding shares of Altura and the maximum term of options granted is five years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. As at June 30, 2019 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the three and six months ended June 30, 2019 and 2018.

A summary of the Corporation's outstanding stock options at June 30, 2019 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2017	7,210,000	0.33
Granted	1,180,000	0.38
Balance, December 31, 2018	8,390,000	0.34
Granted	1,380,000	0.42
<b>Balance, June 30, 2019</b>	<b>9,770,000</b>	<b>0.35</b>

The range of exercise prices for stock options outstanding and exercisable under the plan at June 30, 2019 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low (\$)	High (\$)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price (\$)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price (\$)
0.27	0.425	9,770,000	2.8	0.35	5,526,669	1.9	0.33
		<b>9,770,000</b>	<b>2.8</b>	<b>0.35</b>	<b>5,526,669</b>	<b>1.9</b>	<b>0.33</b>

The fair value of each option granted in the period is estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Weighted average fair value of options granted (\$)	<b>0.22</b>	-	<b>0.23</b>	-
Risk-free interest rate (%)	<b>1.34</b>	-	<b>1.43</b>	-
Expected life (years)	<b>3.5</b>	-	<b>3.5</b>	-
Expected volatility (%)	<b>75.1</b>	-	<b>78.1</b>	-
Estimated forfeiture rate (%)	<b>5.0</b>	-	<b>5.0</b>	-
Expected dividends (\$)	-	-	-	-

The Corporation's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the three and six months ended June 30, 2019 was \$116,000 and \$195,000 (June 30, 2018 – \$110,000 and \$218,000) of which \$36,000 and \$53,000 was capitalized (June 30, 2018 – \$33,000 and \$62,000), respectively.

(d) Weighted average common shares:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Basic	<b>108,920,973</b>	108,920,973	<b>108,920,973</b>	108,920,973
Diluted	<b>110,503,267</b>	110,545,804	<b>110,466,137</b>	109,946,718

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using a method which assumes that any proceeds received by the Corporation upon the exercise of in-the-money stock options or performance warrants plus unamortized share-based compensation expense would be used to buy back common shares at the average market price for the period.

For the three and six months ended June 30, 2019, 4,200,000 stock options and 9,749,879 performance warrants were excluded from the weighted average number of common shares as they were anti-dilutive (June 30, 2018 – 1,640,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at June 30, 2019 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
<b>Balance, December 31, 2017, December 31, 2018, and June 30, 2019</b>	<b>9,749,879</b>	<b>0.449</b>

The performance warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding \$0.675, an additional one-third upon the trading price equaling or exceeding \$0.901 and a final one-third upon the trading price equaling or exceeding \$1.124. The performance warrants expire on July 31, and August 28, 2020. As at June 30, 2019 no performance warrants are exercisable. On the grant date, the weighted average fair value of \$0.27 per performance warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based compensation relating to performance warrants for the three and six months ended June 30, 2019 was \$108,000 and \$216,000 (June 30, 2018 – \$167,000 and \$333,000) of which \$12,000 and \$33,000 was capitalized (June 30, 2018 – \$35,000 and \$64,000), respectively. The fair value of the performance warrants is being expensed over the expected life.

## 11. REVENUE

The Corporation sells its production pursuant to variable-price 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.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table details the Corporation's petroleum and natural gas sales by product:

(\$000)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Heavy oil	<b>5,812</b>	2,561	<b>12,341</b>	4,806
Medium oil	-	1,669	<b>300</b>	3,546
Natural gas	<b>346</b>	158	<b>812</b>	416
Natural gas liquids	<b>195</b>	109	<b>353</b>	276
Petroleum and natural gas sales	<b>6,353</b>	4,497	<b>13,806</b>	9,044

As at June 30, 2019, receivables from contracts with customers were \$1.6 million, which are included in accounts receivable (\$0.7 million at June 30, 2018).

## 12. FINANCIAL INSTRUMENTS

### Credit Risk

Altura is exposed to third party credit risk through its contractual arrangements with its joint interest partners, marketers of petroleum and natural gas, financial instrument counterparties and other parties. In the event such entities fail to meet their contractual obligations to Altura, such failures could have a material adverse effect. The Corporation manages the risk by reviewing the credit risk of these entities and by entering into agreements only with parties that meet certain credit tests. The maximum credit risk that the Corporation is exposed to at any point in time is the carrying value of cash and cash equivalents, if any, accounts receivable and the fair value of financial instrument assets.

The majority of the credit exposure on accounts receivable at June 30, 2019, pertains to revenue for accrued June 2019 production volumes. Altura primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. A significant portion of Altura's accounts receivable is carried by three marketing companies and one joint interest partner with sound financial positioning. At June 30, 2019, 40 percent, 15 percent, 14 percent and 12 percent of total outstanding accounts receivable pertains to these companies. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at June 30, 2019. For the six months ended June 30, 2019, the Corporation received approximately 39 percent, 22 percent, 15 percent, and nine percent of its revenue from four marketing companies (June 30, 2018 – 37 percent, 21 percent and 15 percent of its revenue from three marketing companies).

At June 30, 2019, the Corporation's trade receivables have been aged as follows:

As at (\$000)	June 30, 2019	December 31, 2018
Current	1,966	263
31 – 60 days	-	151
61 – 90 days	88	47
> 90 days	39	189
Allowance for doubtful accounts	-	-
<b>Total</b>	<b>2,093</b>	<b>650</b>

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Altura's accounts receivable > 90 days relates to amounts owing from a joint interest partner and are considered collectible.

### Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Corporation's cash flows and borrowing base limit under its Credit Facility. Lower commodity prices may also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States of America, but also by world events that dictate the levels of supply and demand.

Altura manages the risks associated with changes in commodity prices by entering into risk management contracts. At June 30, 2019, Altura held the following crude oil contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at June 30, 2019 (\$000)
Jul 1/19—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00	498
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20	(81)
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)	(54)
						<b>363</b>

At June 30, 2019, the crude oil contracts were fair valued with an asset of \$363,000 (December 31, 2018 - \$nil) recorded on the balance sheet.



### 13. CAPITAL MANAGEMENT

The Corporation's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Corporation considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The annual and updated budgets are approved by the Board of Directors.

The key measure that the Corporation utilizes in evaluating its capital structure is net debt to annualized adjusted funds flow.

#### Annualized Adjusted Funds Flow

Altura considers adjusted funds flow to be a key measure of performance as it demonstrates the Corporation's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Management believes that such a measure provides a useful assessment of Altura's business on a continuing basis by eliminating certain non-cash charges, transaction costs, if any, and actual settlements of decommissioning liabilities, the timing of which, in the opinion of management, is discretionary. Adjusted funds flow is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used.

Annualized adjusted funds flow for the second quarters of 2019 and 2018 is calculated as follows:

(\$000)	Three months ended June 30	
	2019	2018
Net income	1,044	2,750
Adjusted for the following non-cash items		
Deferred tax expense	195	676
Depletion, depreciation and amortization	2,274	1,525
Accretion of decommissioning liability	26	27
Share-based compensation	167	209
Gain on disposition of assets	-	(2,902)
Lease interest	3	-
Unrealized gain on financial instruments	(363)	-
Quarterly adjusted funds flow	3,346	2,285
Annualized adjusted funds flow	13,384	9,140

#### Net Debt

Management views net debt as a key industry benchmark and measure to assess the Corporation's financial position and liquidity.

Net debt is calculated as current assets less current liabilities, excluding the fair value of financial instruments, the current portion of lease liabilities and the current portion of the decommissioning liability. Management has excluded the current portion of the decommissioning liability as this is an estimate based on management's assumptions and subject to volatility based on changes in cost and timing estimates, the risk-free discount rate and inflation rate. Net debt is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to similarly titled measures of other companies where similar terminology is used.

Net debt as at June 30, 2019 and 2018 is summarized as follows:

(\$000)	June 30, 2019	June 30, 2018
Current assets	(2,688)	(21,133)
Current liabilities	7,485	6,372
Working capital deficit (surplus)	4,797	(14,761)
Fair value of financial instruments	363	-
Current portion of lease liabilities	(36)	-
Current portion of decommissioning liability	(15)	-
Net debt/(working capital surplus)	5,109	(14,761)

Net debt to annualized adjusted funds flow represents a measure of the time it is expected to take to pay off the debt if no further capital expenditures were incurred and if cash flow in the next year were equal to the amount in the most recent quarter annualized.

The Corporation monitors this ratio and endeavors to maintain it at, or below, 1:1 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, the Corporation's ratio of net debt to annualized adjusted funds flow was 0.4:1 at June 30, 2019.

	<b>June 30, 2019</b>	June 30, 2018
Net debt/(working capital surplus) (\$000)	<b>5,109</b>	(14,761)
Annualized adjusted funds flow (\$000)	<b>13,384</b>	9,140
Net debt to annualized adjusted funds flow (times) <sup>(1)</sup>	<b>0.4</b>	-

(1) Net debt to annualized funds flow at June 30, 2018 was nil as Altura had a working capital surplus.

The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There have been no changes in the Corporation's approach to capital management in 2019.

#### 14. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the components of non-cash working capital:

(\$000)	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
Provided by (used in):				
Accounts receivable	<b>880</b>	1,017	<b>(1,443)</b>	1,381
Prepaid expenses and deposits	<b>(26)</b>	(31)	<b>(28)</b>	(61)
Accounts payable and accrued liabilities	<b>2,576</b>	2,191	<b>2,454</b>	4,560
	<b>3,430</b>	3,177	<b>983</b>	5,880
Provided by (used in):				
Operating activities	<b>222</b>	425	<b>(1,641)</b>	700
Investing activities	<b>3,208</b>	2,752	<b>2,624</b>	5,180
	<b>3,430</b>	3,177	<b>983</b>	5,880

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

David Burghardt  
President & Chief Executive Officer  
Altura Energy Inc.

John Chambers  
Independent Businessman

Darren Gee  
President & Chief Executive Officer  
Peyto Exploration & Development Corp.

Brian Lavergne  
President & Chief Executive Officer  
Storm Resources Ltd.

Robert Maitland  
Independent Businessman

John McAleer  
Managing Director  
Palisade Capital Management Ltd.

### **OFFICERS**

David Burghardt  
President & Chief Executive Officer

Tavis Carlson  
Vice President, Finance & Chief Financial Officer

Jeff Mazurak  
Vice President, Operations

D. Robert Pinckston  
Vice President, Exploration

Craig Stayura  
Vice President, Land

Travis Stephenson  
Vice President, Engineering

### **AUDITORS**

KMPG LLP  
Calgary, Alberta

### **BANKERS**

ATB Financial  
Calgary, Alberta

### **LEGAL COUNSEL**

Lawson Lundell LLP  
Calgary, Alberta

### **EVALUATION ENGINEERS**

McDaniel & Associates Consultants Ltd.  
Calgary, Alberta

### **REGISTRAR & TRANSFER AGENT**

Computershare Trust Company of Canada  
Calgary, Alberta

### **STOCK TRADING**

TSX Venture Exchange  
Trading Symbol: **ATU**

