2020
SECOND QUARTER REPORT

altura ENERGY INC.

OPERATIONAL AND FINANCIAL SUMMARY

	Three Months Ended			Six months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
OPERATING					
Average daily production					
Heavy oil (bbls/d)	**213**	667	1,016	**440**	1,210
Light & medium oil (bbls/d)	**-**	8	-	**4**	34
Natural gas (Mcf/d)	**1,154**	2,926	2,914	**2,040**	2,713
NGLs (bbls/d)	**30**	87	88	**59**	68
Total (boe/d)	**435**	1,250	1,591	**843**	1,764
Total boe/d per million shares – diluted	**4.0**	11.5	14.4	**7.7**	16.0
Average realized prices					
Heavy oil ($/bbl)	**21.39**	33.06	62.83	**30.24**	56.36
Light & medium oil ($/bbl)	**-**	20.85	-	**20.85**	48.97
Natural gas ($/Mcf)	**2.06**	2.20	1.30	**2.16**	1.65
NGLs ($/bbl)	**6.46**	22.02	24.23	**18.03**	28.70
Total ($/boe)	**16.36**	24.46	43.89	**22.37**	43.24
($/boe)					
Petroleum and natural gas sales	**16.36**	24.46	43.89	**22.37**	43.24
Realized gain on financial instruments	**16.60**	5.53	1.23	**8.39**	0.56
Royalties	**0.28**	(1.96)	(4.08)	**(1.38)**	(4.03)
Operating	**(16.27)**	(12.19)	(9.56)	**(13.24)**	(8.81)
Transportation	**(2.46)**	(2.49)	(4.92)	**(2.48)**	(4.25)
Operating netback[(1)]	**14.51**	13.35	26.56	**13.66**	26.71
General and administrative	**(7.98)**	(3.50)	(2.94)	**(4.66)**	(2.78)
Exploration expense	**-**	-	-	**-**	(0.07)
Interest and financing expense (cash)	**(1.42)**	(0.17)	(0.50)	**(0.49)**	(0.39)
Adjusted funds flow per boe[(1)]	**5.11**	9.68	23.12	**8.51**	23.47
FINANCIAL ($000, except per share amounts)					
Petroleum and natural gas sales	**647**	2,783	6,353	**3,430**	13,806
Cash flow from operating activities	**512**	1,183	3,568	**1,695**	5,858
Per share – diluted	**-**	0.01	0.03	**0.02**	0.05
Adjusted funds flow[(1)]	**204**	1,102	3,346	**1,306**	7,499
Per share – diluted[(1)]	**-**	0.01	0.03	**0.01**	0.07
Net income (loss)	**(1,247)**	(31,529)	1,044	**(32,776)**	1,973
Per share – basic	**(0.01)**	(0.29)	0.01	**(0.30)**	0.02
Per share – diluted[(2)]	**(0.01)**	(0.29)	0.01	**(0.30)**	0.02
Capital expenditures	**218**	7,082	6,350	**7,300**	7,803
Property acquisitions (dispositions), net	**(871)**	-	-	**(871)**	-
Total capital expenditures, net	**(653)**	7,082	6,350	**6,429**	7,803
Net debt[(1)]	**5,335**	6,183	5,109	**5,335**	5,109
Common shares outstanding (000)					
End of period – basic	**108,921**	108,921	108,921	**108,921**	108,921
Weighted average for the period – basic[(2)]	**108,921**	108,921	108,921	**108,921**	108,921
Weighted average for the period – diluted(2)	**108,921**	108,936	110,503	**108,921**	110,947

(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.

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

PRESIDENT'S MESSAGE

SECOND QUARTER 2020 REVIEW

Production volumes averaged 435 boe per day in the second quarter, a 65% decrease from the first quarter of 2020. Production in the quarter was impacted by Altura's voluntary production curtailment of approximately 700 boe per day in response to the severe decline in crude oil prices caused by the COVID-19 pandemic and OPEC production quota concerns. Altura curtailed approximately 525 boe per day in April and as crude oil prices continued to rapidly decline in April, Altura made the decision to shut in all corporate production for the month of May. The Corporation began restoring curtailed volumes in June as oil prices improved, and production volumes increased to approximately 1,050 boe per day in July. Wet weather and third-party restrictions delayed approximately 300 boe per day of production from three wells that are expected to be back online in mid-September.

Altura's realized heavy oil price decreased 35% to $21.39 per barrel in the second quarter compared to $33.06 per barrel in the first quarter of 2020 and decreased 66% compared to $62.83 per barrel in the second quarter of 2019.

The Corporation realized a gain on financial instruments of $658,000 ($16.60 per boe) which reflected cash settlements received on Western Canadian Select ("WCS") contracts.

Operating expenses in the second quarter were $16.27 per boe, compared to $12.19 per boe in the first quarter of 2020. The increase was mainly due to lower volumes from the voluntary production curtailment. Transportation expenses were $2.46 per boe, consistent with $2.49 per boe in the first quarter of 2020.

The Corporation's operating netback[1] averaged $14.51 per boe, up 9% from the first quarter of 2020 due to an increased gain on financial instruments and lower royalty expenses, partially offset by lower crude oil prices and higher operating expenses.

Adjusted funds flow[1] was $0.2 million in the quarter, down 81% from the first quarter of 2020 due to lower production volumes, lower crude oil prices and higher per unit operating expenses.

Altura received $88,000 under the Canada Emergency Wage Subsidy in the second quarter, which was applied against G&A expenses.

Altura recorded a net loss of $1.2 million in the quarter due mainly to an unrealized loss on financial instruments of $1.5 million, partially offset by a gain on property disposition of $0.6 million.

On June 30, 2020, Altura divested of a 1.375% working interest in the Corporation's production, wells, lands and facilities for cash of $871,000 after transaction costs as outlined in the Corporation's June 30, 2020 news release.

Altura's net debt[1] was $5.3 million as at June 30, 2020, a decrease of $0.9 million from March 31, 2020.

CREDIT FACILITY RENEWAL

In August, Altura and its lender completed the redetermination of its revolving operating demand loan (the "Operating Loan") and the borrowing base was confirmed at $6.0 million. Additionally, Altura secured a $3.0 million term loan from its lender through the Business Credit Availability Program ("BCAP") from the Export Development Bank of Canada ("EDC") (the "Term Loan"). The Operating Loan and the Term Loan (collectively the "Credit Facilities") will provide Altura with $9.0 million of total Credit Facilities. Considering Altura's net debt of $5.3 million as at June 30, 2020, the Corporation has sufficient liquidity to execute its business plan in the current volatile commodity market. The next review date for the Credit Facilities has been scheduled for May 31, 2021 but may be set at an earlier or later date at the sole discretion of the lender.

The Term Loan is a non-revolving term facility to be used exclusively to provide additional liquidity to finance Altura's business operations. It has a five-year maturity with no less than 50% of amounts outstanding due on August 27, 2024 and the remaining balance due on August 27, 2025.

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[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" contained within the "Advisories" section of Altura's MD&A.

The interest rate on the Credit Facilities is the Lender's prime rate plus 4.5 percent per annum. Please refer to Altura's second quarter of 2020 MD&A and financial statements for additional information on the Credit Facilities.

HEDGING

Altura had the following crude oil contracts as at June 30, 2020 hedged to June 30, 2021:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD $43.75
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD $71.35
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD ($24.00)
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 bbls/d	WCS	CAD $32.25

Subsequent to June 30, 2020, Altura entered into the following commodity contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 bbls/d	WCS	CAD $39.20
Sep 1/20—Oct 31/20	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.380
Nov 1/20—Mar/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.825
Apr 1/21—Jun 30/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.455

ENTICE UPDATE

The Entice exploration horizontal well was shut-in on March 18, 2020 due to the severe decline in oil prices and was placed back on production on June 11, 2020 to continue the production test. During this test, the well operated for 58 days and produced 1,500 barrels of 20° API oil, 33 MMcf of natural gas, which was flared, and 6,850 barrels of water with 104% cumulative completion load water recovered.

During the last 7 days of the production test, the water cut dropped significantly from an average of 82% to a current average of under 50%. This drop in water cut and the high gas to oil ratio has created challenges with the current form of high-volume artificial lift. The Corporation has shut-in the well and is evaluating alternative forms of artificial lift before deciding to continue the evaluation or suspend the well indefinitely.

Altura has acquired 89 gross (83 net) sections of land on this exploratory play at Entice where vertical well data, combined with extensive 3D seismic coverage, provided a means to identify and map the hydrocarbon accumulation. Altura believes that the crude oil gravity varies across the play and that a higher oil quality than demonstrated by the initial exploration well could be achievable. Altura will continue assessing the technical and commercial potential of this play over these lands to determine the next steps.

OUTLOOK

July 2020 production is estimated at approximately 1,050 boe per day based on field estimates. Altura continues to have three Leduc-Woodbend wells shut-in that are expected to be brought on production by mid-September. The Corporation forecasts production volumes to range between 1,000 and 1,100 boe per day for the second half of 2020.

There has been some optimism in respect to the global crude oil supply/demand balance and oil prices have improved significantly since the beginning of May. The Corporation, however, is focused on protecting balance sheet strength during the current volatile commodity price environment and no new wells are currently planned to be drilled or completed in the second half of 2020.

Further to the June 30, 2020 amending agreement as disclosed in the June 30, 2020 news release, Altura expects to close three additional dispositions of a 1.375% working interest for $875,000 each on September 30, 2020, January 31, 2021 and June 30, 2021 (total remaining disposition of 4.125% working interest for $2,625,000).

Through cash flow and the September 30, 2020 disposition, Altura is forecasting to reduce its net debt to approximately $3.5 million by the end of the year[2].

On behalf of the Board of Directors and the Altura management team, we would like to thank our shareholders for their ongoing support during these very difficult times.

Respectfully,

/s/ David Burghardt
President and Chief Executive Officer
August 27, 2020

[2] Key assumptions for net debt forecast:

Second half of 2020 WTI US$41.42/bbl, WCS diff US$11.23/bbl, FX 0.75 $US/$, AECO CAD$2.05/GJ, average production 1,000 – 1,100 boe per day, operating and transportation costs of $12.50 per boe and closing stage 2 of the asset disposition on September 30, 2020

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 27, 2020 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, 2020, the audited consolidated financial statements and related notes for the year ended December 31, 2019, as well as the Corporation's Annual Information Form ("AIF") that is filed on SEDAR at 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. Altura's common shares are listed for trading on the TSX Venture Exchange under the symbol "ATU".

COVID-19

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

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

In addition, leading up to the COVID pandemic, increased global crude oil supply due to a disagreement over production restrictions between Russia and Saudi Arabia resulted in substantial negative pressure on oil prices. Consequently, the effect of these two events created a dramatic decrease in commodity prices which resulted in a decline in Altura's share price and market capitalization since year-end 2019. The potential risk and impact due to the events described above relating to the Corporation has been taken into consideration in management's estimates used for the period end. However, there could be a further prospective material impact in future periods.

2020 GUIDANCE

The following table summarizes the Corporation's guidance for the second half of 2020 that was provided in Altura's July 30, 2020 news release.

	July 30, 2020 Guidance[1]
December 31, 2020 net debt ($000)	3,500
H2 2020 average production volumes (boe/d)	1,000 to 1,100

(1) Key assumptions for the July 30, 2020 guidance include WTI US$41.42/bbl, WCS diff US$11.23/bbl, FX 0.75 $US/$, AECO CAD$2.05/GJ, operating and transportation costs of $12.50 per boe and closing stage 2 of the asset disposition on September 30, 2020 as discussed below.

ASSET DISPOSITION

On June 30, 2020, Altura amended the timing of the second transaction in the December 4, 2019 definitive agreement (the "Amending Agreement") with a private company ("PrivateCo") for the sale of a 5.5% working interest in the Corporation's production, wells, lands and facilities for cash of $3.5 million (the "Second Transaction"). The Second Transaction has been amended to close in four stages as follows:

Stage	Closing Date	Disposition Interest	Cash Proceeds
Stage 1	June 30, 2020	1.375%	$875,000
Stage 2	September 30, 2020	1.375%	$875,000
Stage 3	January 31, 2021	1.375%	$875,000
Stage 4	June 30, 2021	1.375%	$875,000
Total		**5.500%**	**$3,500,000**

On June 30, 2020, Altura closed stage one of the Amending Agreement and divested of a 1.375% working interest in the Corporation's production, wells, lands and facilities for cash of $871,000 after transaction costs (the "1.375% Asset Disposition"). Altura recorded $342,000 to D&P asset dispositions, $3,000 to E&E asset dispositions, reduced the decommissioning liability by $79,000 associated with the asset disposition and recorded a gain on disposition of $605,000 for the three months ended June 30, 2020.

The December 4, 2019 agreement included a drilling commitment related to the Second Transaction ("Commitment Well"), whereby Altura committed to the drilling of a horizontal well in either the Entice area or the Leduc-Woodbend area on or before December 31, 2020. Given the current environment, drilling risk profile and capital efficiency in each of the areas, the parties have agreed the well will be drilled at Leduc-Woodbend at a time when commodity prices support well economics. Estimated total gross drill, complete and equipping costs of the well is $2.5 million. PrivateCo will pay 12.5% of the well costs and earn a 12.5% working interest in the well and the optional third funding transaction contemplated by the December 4, 2019 agreement will not be executed by PrivateCo.

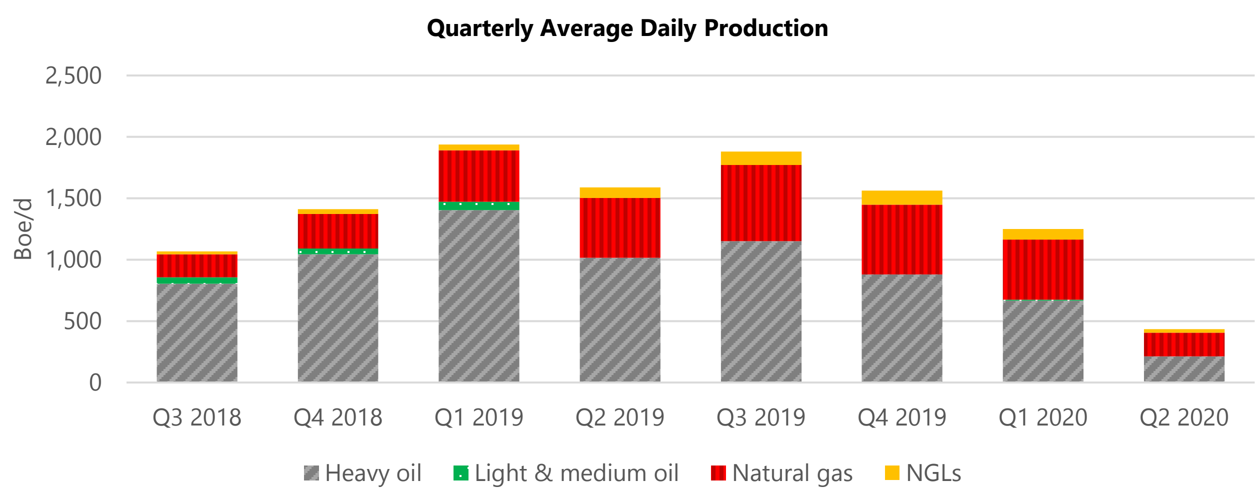
RESULTS OF OPERATIONS

Production

	Three Months Ended June 30			Six Months Ended June 30		
	2020	2019	% Change	**2020**	2019	% Change
Heavy oil (Bbls/d)	**213**	1,016	(79)	**440**	1,210	(64)
Light & medium oil (bbls/d)	**-**	-	-	**4**	34	(88)
Natural gas (Mcf/d)	**1,154**	2,914	(60)	**2,040**	2,713	(25)
Natural gas liquids ("NGLs") (Bbls/d)	**30**	88	(66)	**59**	68	(13)
Total (Boe/d)	**435**	1,591	(73)	**843**	1,764	(52)
Oil and natural gas liquids % of production	**56%**	69%	(19)	**60%**	74%	(19)

During the second quarter of 2020, Altura's production decreased 73 percent from the second quarter of 2019 due to production curtailments and natural declines. The COVID-19 global pandemic resulted in an unprecedented decline in crude oil prices in the first half of 2020. As a result, Altura voluntarily curtailed April 2020 production volumes to 664 boe per day and shut-in all production in May 2020. As crude oil prices recovered in May, Altura restarted production in June 2020 and produced at a curtailed volume of 656 boe per day. Total curtailed production in the second quarter of 2020 was approximately 700 boe per day.

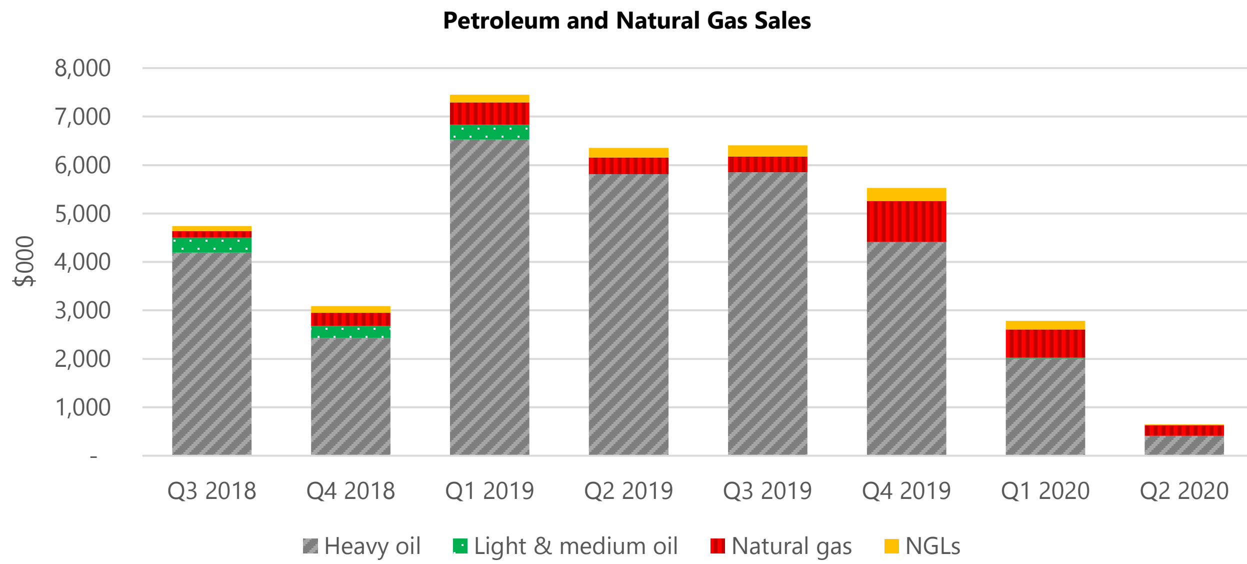
During the first half of 2020, Altura's production decreased 52 percent from the first half of 2019. The decreased oil production relates to natural declines with fewer new wells brought on production in the second half of 2019 and first half of 2020 compared to the second half of 2018 and first half of 2019, coupled with the curtailed production volumes in the second quarter of 2020 and the 7.0 percent working interest disposition on December 4, 2019 (the "7% Asset Disposition") to PrivateCo.



Petroleum and Natural Gas Sales

	Three months ended June 30			Six Months Ended June 30		
($000)	**2020**	2019	% Change	**2020**	2019	% Change
Heavy oil	**413**	5,812	(93)	**2,421**	12,341	(80)
Light & medium oil	**-**	-	-	**15**	300	(95)
Natural gas	**217**	346	(37)	**802**	812	(1)
Natural gas liquids	**17**	195	(91)	**192**	353	(46)
Petroleum and natural gas sales	**647**	6,353	(90)	**3,430**	13,806	(75)

Petroleum and natural gas sales for the second quarter of 2020 decreased 90 percent to $647,000 compared to $6,353,000 in the second quarter of 2019. The decrease of $5,706,000 consists of $4,934,000 attributed to decreased production volumes and $772,000 attributed to lower realized crude oil and NGL prices, partially offset by higher natural gas prices. For the six months ended June 30, 2020, petroleum and natural gas sales decreased 75 percent to $3,430,000 compared to $13,806,000 in the same period of 2019. The decrease of $10,376,000 consists of $8,339,000 attributed to decreased production volumes and $2,037,000 attributed to lower realized crude oil and NGL prices, partially offset by higher 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:

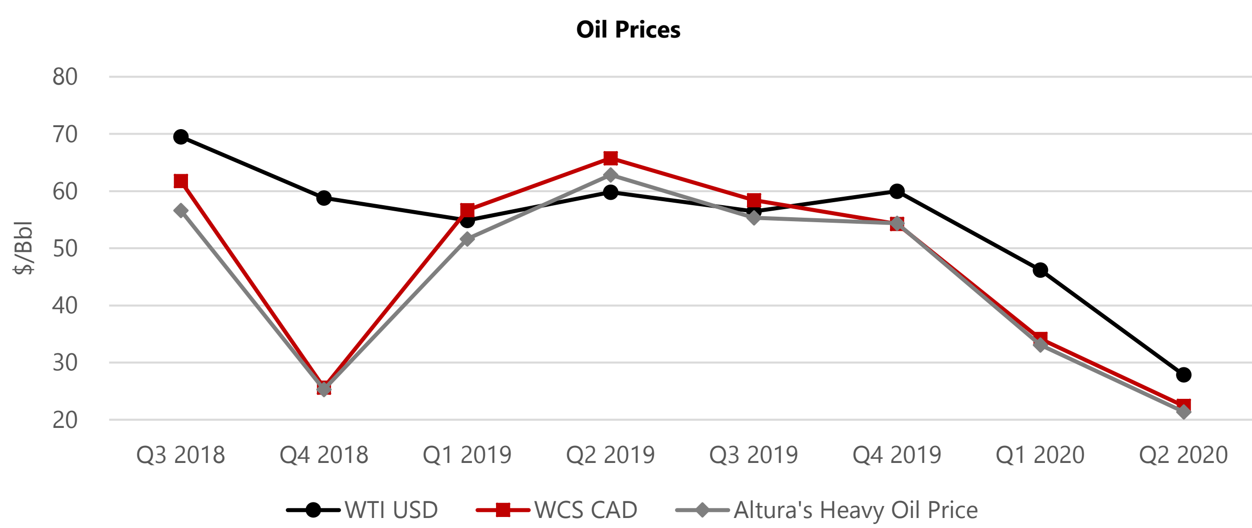
	Three months ended June 30			Six months ended June 30		
	2020	2019	% Change	**2020**	2019	% Change
Average Benchmark Prices						
WTI crude oil (US$/Bbl)(1)	**27.85**	59.81	(53)	**37.01**	57.36	(35)
WCS differential (US$/Bbl) (2)	**(11.47)**	(10.67)	7	**(16.00)**	(11.48)	39
US$/Cdn$ exchange rate	**0.722**	0.747	(3)	**0.732**	0.750	(2)
WCS (Cdn$/Bbl)	**22.42**	65.76	(66)	**28.27**	61.21	(54)
AECO daily spot ($/GJ)	**1.89**	0.98	93	**1.91**	1.73	10
Average Realized Prices						
Heavy oil ($/Bbl)	**21.39**	62.83	(66)	**30.24**	56.36	(46)
Light & medium oil ($/Bbl)	**-**	-	-	**20.85**	48.97	(57)
Natural gas ($/Mcf)	**2.06**	1.30	58	**2.16**	1.65	31
Natural gas liquids ($/Bbl)	**6.46**	24.23	(73)	**18.03**	28.70	(37)
Average realized price ($/Boe)	**16.36**	43.89	(63)	**22.37**	43.24	(48)

(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.

For the second quarter of 2020, WTI decreased 53 percent to US$27.85 per barrel compared to the second quarter of 2019 and the differential between WTI and WCS widened seven percent to US$11.47 per barrel. These changes, along with the weakening Canadian dollar, resulted in Altura’s realized heavy oil price decreasing 66 percent to $21.39 per barrel from the second quarter of 2019.

For the first half of 2020, WTI decreased 35 percent to US$37.01 per barrel compared to the first half of 2019 and the differential between WTI and WCS widened 39 percent to US$16.00 per barrel, while Altura’s realized heavy oil price decreased 46 percent to $30.24 per barrel.



In the second quarter of 2020, Altura's realized natural gas price increased by 58 percent to $2.06 per Mcf from the second quarter of 2019 while the AECO daily spot price increased 93 percent to $1.89 per GJ. In the first half of 2020, Altura's realized natural gas price increased by 31 percent to $2.16 per Mcf from the first half of 2019 while the AECO daily spot price increased 10 percent to $1.91 per GJ. The increased realized natural gas price in the first half of 2020 relative to the increase in the AECO daily spot price is due to a gas balance recovery on the NOVA pipeline that negatively impacted Altura in the first half of 2019.

Risk Management Contracts

Altura has a risk management program to reduce the volatility of crude oil sales, increase the certainty of adjusted funds flow to protect development economics and to comply with 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		
($000, except per boe)	**2020**	2019	%Change	**2020**	2019	% Change
Realized gain on financial instruments	**658**	178	270	**1,287**	178	>500
Realized gain on financial instruments per boe	**16.60**	1.23	>500	**8.39**	0.56	>500

For the three and six months ended June 30, 2020, the realized gain on financial instruments increased to $658,000 and $1,287,000 as compared to $178,000 in the same periods of 2019, respectively. The increases are attributed to the severe decline in crude oil prices in the first half of 2020 compared to the first half of 2019. In April 2020, Altura unwound its May 2020 hedge contracts and realized $356,000 which contributed to the gain in the three and six months ended June 30, 2020.

At June 30, 2020, Altura held the following crude oil contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at June 30, 2020 ($000)
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD $43.75	137
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD $71.35	480
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD ($24.00)	(128)
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD $32.25	(46)
						443

At June 30, 2020, the crude oil contracts were fair valued with an asset of $443,000 (December 31, 2019 - $432,000 liability) recorded on the balance sheet and an unrealized loss of $1,494,000 recorded in net income (loss) for the three months ended June 30, 2020 (June 30, 2019 - $363,000 unrealized gain). For the first half of 2020, Altura recorded an unrealized gain of $875,000 in net income (loss) (June 30, 2019 - $363,000 unrealized gain).

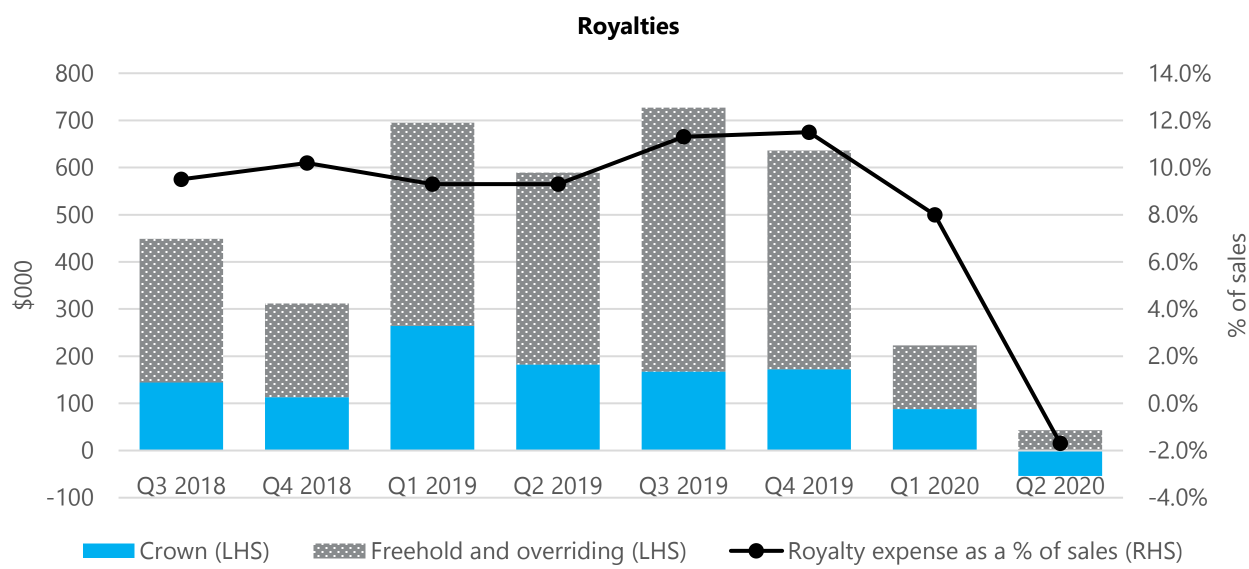
Subsequent to June 30, 2020, Altura entered into the following commodity contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD $39.20
Sep 1/20—Oct 31/20	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.380
Nov 1/20—Mar/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.825
Apr 1/21—Jun 30/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.455

Royalties

($000, except % and per Boe)	Three months ended June 30 **2020**	2019	% Change	Six months ended June 30 **2020**	2019	% Change
Crown royalties	**(54)**	182	(130)	**34**	446	(92)
Freehold and overriding royalties	**43**	407	(89)	**178**	838	(79)
Royalty expense (recovery)	**(11)**	589	(102)	**212**	1,284	(83)
Royalty expense as a % of sales	**(1.7%)**	9.3%	(118)	**6.2%**	9.3%	(33)
Royalty expense per Boe	**(0.28)**	4.08	(107)	**1.38**	4.03	(66)

In the second quarter of 2020, Altura recorded a recovery of $11,000 compared to an expense of $589,000 in the second quarter of 2019. In the first half of 2020, royalty expense decreased 83 percent to $212,000 compared to $1,284,000 in the first half of 2019. The decreases in both periods is due to lower production volumes coupled with lower realized sales prices. Additionally, Altura recorded a recovery of Crown royalties relating to a gas cost allowance adjustment for 2019.



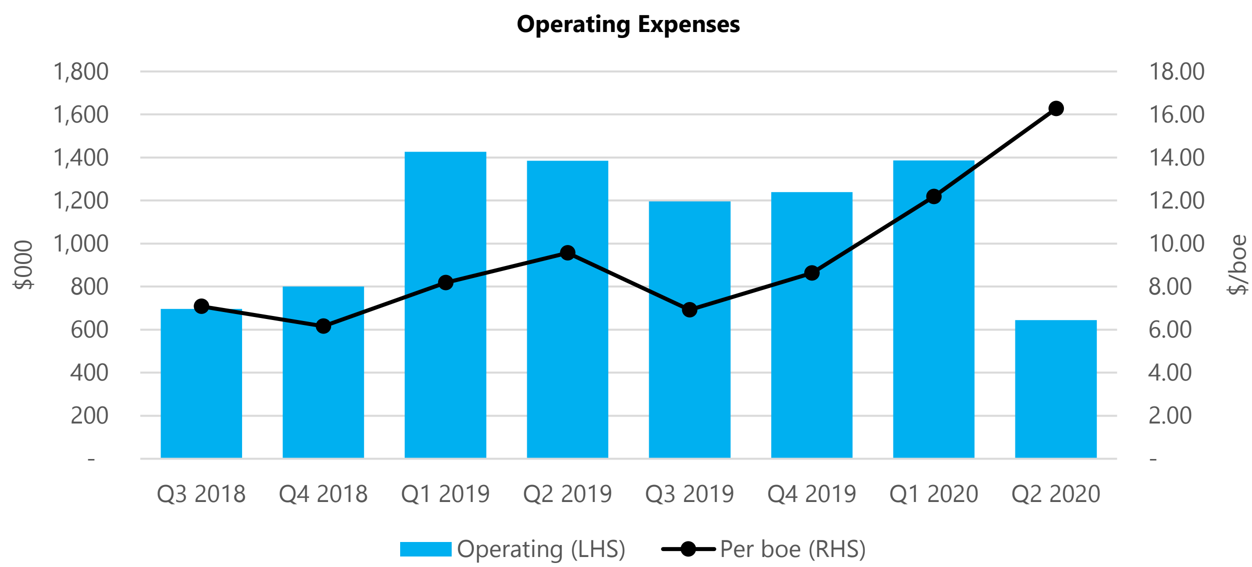
*LHS = Left Hand Side
*RHS = Right Hand Side

Operating

($000, except per boe)	Three months ended June 30 **2020**	2019	% Change	Six Months Ended June 30 **2020**	2019	% Change
Operating	**644**	1,385	(54)	**2,030**	2,812	(28)
Operating per boe	**16.27**	9.56	70	**13.24**	8.81	50

Operating expenses decreased $741,000 in the second quarter of 2020 to $644,000 as compared to $1,385,000 in the second quarter of 2019. In the first half of 2020, operating expenses decreased $782,000 to $2,030,000 compared to $2,812,000 in the first half of 2019. These decreases are due to decreased production volumes from voluntary curtailed production and natural declines.

On a per boe basis, operating expenses increased to $16.27 per boe and $13.24 per boe in the three and six months ended June 30, 2020 compared to $9.56 per boe and $8.81 per boe in the same periods of 2019, respectively. These increases are due to fixed operating costs incurred with voluntarily curtailed or shut-in production and well workovers on wells repaired at the end of the quarter that were previously delayed due to low oil prices.



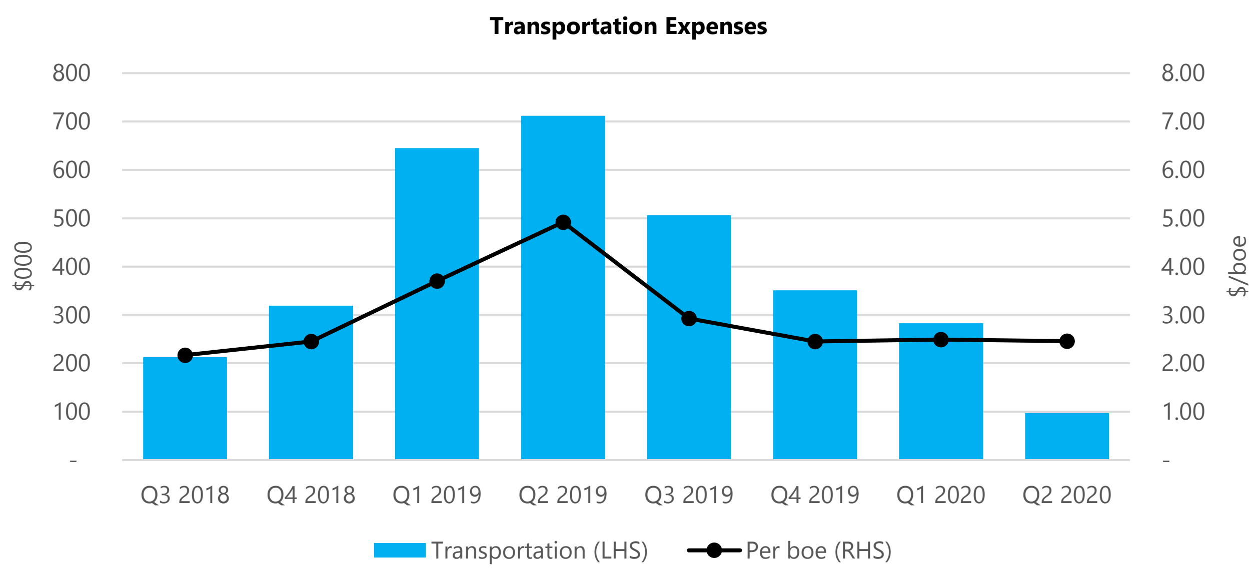
Operating expenses increased $4.08 per boe to $16.27 per boe in the second quarter of 2020 compared to $12.19 per boe in the first quarter of 2020 due to fixed operating costs incurred with voluntarily curtailed or shut-in production and well workovers on wells repaired at the end of the quarter that were previously delayed due to low oil prices.

Transportation

($000, except per boe)	Three months ended June 30 2020	2019	% Change	Six months ended June 30 2020	2019	% Change
Transportation	**97**	712	(86)	**380**	1,357	(72)
Transportation per boe	**2.46**	4.92	(50)	**2.48**	4.25	(42)

Transportation costs for the three and six months ended June 30, 2020 decreased to $97,000 and $380,000 as compared to $712,000 and $1,357,000 in comparable prior periods, due to decreased production volumes, coupled with shorter hauls to sales terminals in central Alberta.

On a per boe basis, transportation expenses decreased to $2.46 per boe and $2.48 per boe in the three and six months ended June 30, 2020, respectively, compared to $4.92 per boe and $4.25 per boe in the same periods of 2019. The decreases are due to shorter hauls to sales terminals in central Alberta in the three and six months ended June 30, 2020, compared to longer hauls to sales terminals in eastern Alberta in the comparable prior periods.

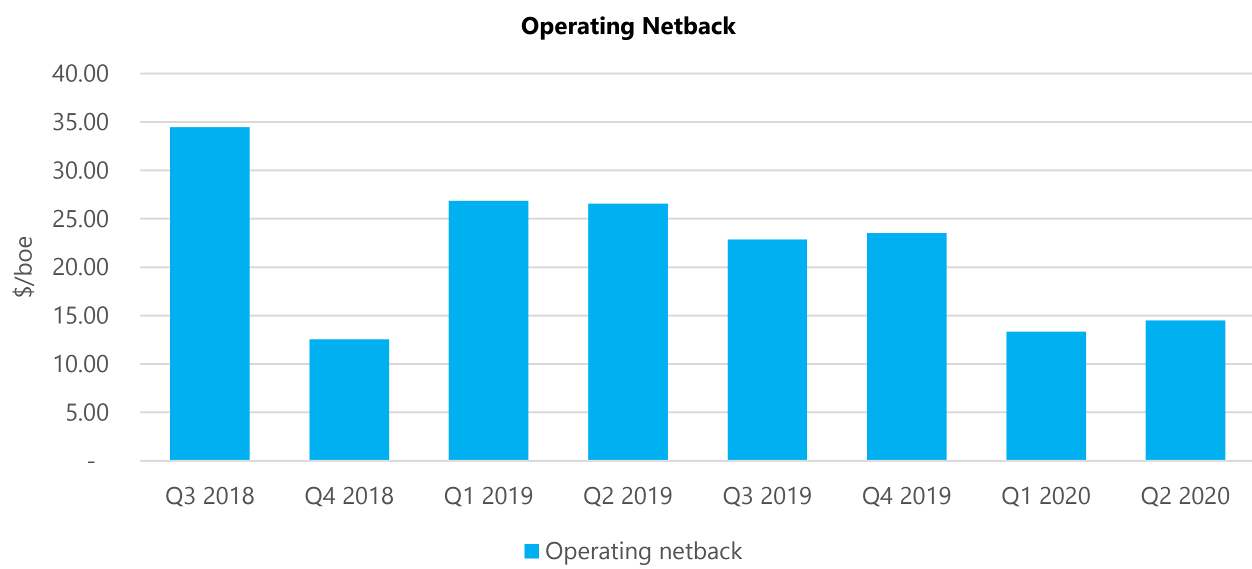


Operating Netback

	Three months ended June 30			Six months ended June 30		
($/boe)	**2020**	2019	% Change	**2020**	2019	% Change
Petroleum and natural gas sales	**16.36**	43.89	(63)	**22.37**	43.24	(48)
Realized gain on financial instruments	**16.60**	1.23	>500	**8.39**	0.56	>500
Royalties	**0.28**	(4.08)	(107)	**(1.38)**	(4.03)	(66)
Operating	**(16.27)**	(9.56)	70	**(13.24)**	(8.81)	50
Transportation	**(2.46)**	(4.92)	(50)	**(2.48)**	(4.25)	(42)
Operating netback[(1)]	**14.51**	26.56	(45)	**13.66**	26.71	(49)

(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 $14.51 per boe in the second quarter of 2020 compared to $26.56 per boe in the second quarter of 2019. For the six months ended June 30, 2020, Altura's operating netback was $13.66 per boe compared to $26.71 per boe in the same period of 2019. The decreases are a result of lower petroleum and natural gas sales prices and higher operating costs, partially offset by increased realized gains on financial instruments, lower transportation costs and lower royalties.



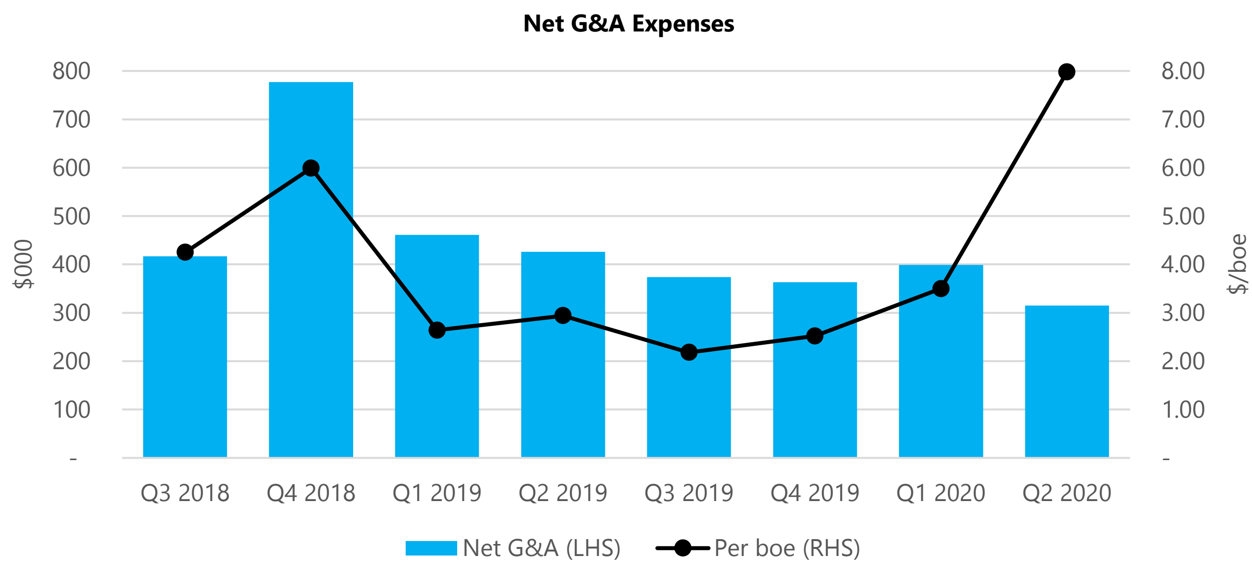
General and Administrative ("G&A") Expenses

($000, except per boe)	**Three months ended June 30** **2020**	2019	% Change	**Six months ended June 30** **2020**	2019	% Change
Gross G&A	**440**	606	(27)	**1,035**	1,198	(14)
Capitalized G&A and overhead recoveries	**(125)**	(180)	(31)	**(321)**	(311)	3
Net G&A expenses	**315**	426	(26)	**714**	887	(20)
Net G&A per boe	**7.98**	2.94	171	**4.66**	2.78	68

Net G&A expenses totaled $315,000 in the second quarter of 2020, compared to $426,000 for the second quarter of 2019. In the first half of 2020, Altura's net G&A expenses were $714,000, a 20 percent decrease from the same period in 2019. Altura received $88,000 under the Canada Emergency Wage Subsidy program in the three and six months ended June 30, 2020. Additionally, G&A costs decreased due to lower professional fees and decreased consulting costs.

Net G&A expenses increased to $7.98 per boe and $4.66 per boe for the three and six months ended June 30, 2020, respectively, compared to $2.94 per boe and $2.78 per boe in the same periods in 2019 due to decreased production volumes.

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



Interest and Financing Expenses

($000, except per boe)	**Three months ended June 30** **2020**	2019	% Change	**Six months ended June 30** **2020**	2019	% Change
Credit facility interest and financing expenses	**53**	73	(27)	**69**	124	(44)
Lease interest (cash and non-cash)	**3**	3	-	**6**	6	-
Interest and financing expenses	**56**	76	(26)	**75**	130	(42)
Interest and financing expenses per boe (cash)	**1.42**	0.50	184	**0.49**	0.39	26

Interest and financing expenses totaled $56,000 and $75,000 in the three and six months ended June 30, 2020, respectively, compared to $76,000 and $130,000 in the same periods of 2019. The decrease in both periods is primarily due to the timing of Altura's credit facility renewal fees. In 2019, the fees were included in the second quarter, while the 2020 fees will be included in the third quarter due to the Corporation's credit facility renewal being extended to August 31, 2020. Altura's average interest rate in the six months ended June 30, 2020 was 4.8 percent, compared to 5.5 percent in the same period of 2019.

Share-Based Compensation

	Three months ended June 30			Six months ended June 30		
($000)	**2020**	2019	% Change	**2020**	2019	% Change
Share-based compensation	**100**	224	(55)	**229**	411	(44)
Capitalized share-based compensation	**(20)**	(57)	(65)	**(55)**	(86)	(36)
Share-based compensation expense	**80**	167	(52)	**174**	325	(46)

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 $80,000 and $174,000 in the three and six months ended June 30, 2020, respectively, compared to $167,000 and $325,000 in the same periods of 2019. The decrease in the three and six months ended June 30, 2020, as compared to the same periods of 2019, reflects a decrease in performance warrant expense due to two-thirds of the total performance warrants being fully expensed in July 2019 and decreased stock option expense due to an increased percentage of stock options that are fully vested and expensed.

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")

	Three months ended June 30			Six months ended June 30		
($000, except per Boe)	**2020**	2019	% Change	**2020**	2019	% Change
DD&A	**429**	2,274	(81)	**2,079**	4,911	(58)
DD&A per Boe	**10.84**	15.71	(31)	**13.56**	15.38	(12)

Altura uses proved and probable reserves to calculate DD&A expense. For the three and six months ended June 30, 2020, DD&A decreased to $429,000 and $2,079,000, respectively, compared to $2,274,000 and $4,911,000 in the same periods of 2019. The decreases are due to lower production volumes and the impairment recorded in the first quarter of 2020.

On a per unit basis, DD&A decreased to $10.84 per boe and $13.56 per boe in the three and six months ended June 30, 2020, compared to $15.71 per boe and $15.38 per boe in the same periods of 2019. The decreased per unit depletion is due to the impairment recorded in the first quarter of 2020.

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.

Exploration and Evaluation ("E&E")

As at March 31, 2020, the Corporation determined that indicators of impairment existed with respect to its E&E assets which are all in the Entice area. For impairment testing, the recoverable amount of E&E assets was determined using internal estimates of the fair value of certain undeveloped land based principally on relevant land sales. No value was assigned to the well drilled in the first quarter of 2020 based on production testing results to date and the significant decline in forward oil benchmark prices. For the three months ended March 31, 2020, Altura recognized an impairment charge of $4,755,000 (no impairment at December 31, 2019) on E&E assets.

During the second quarter of 2020, Altura recorded an additional $40,000 of impairment to its E&E assets relating to additional well costs related to its E&E assets impaired at March 31, 2020. As at June 30, 2020, there were no triggers to perform an impairment test or reversal of prior impairments on the remaining E&E assets.

Property and Equipment

At March 31, 2020, the Corporation determined there to be indicators of impairment in its Leduc-Woodbend cash-generating unit ("CGU") due to the potential long-term impact of the COVID-19 pandemic which caused a significant decline in forward oil benchmark prices and due to a decline in Altura's market capitalization in the first quarter of 2020. Altura has only one CGU. In the three months ended March 31, 2020, the Corporation recognized an impairment charge of $30.0 million (no impairment at December 31, 2019) related to its Leduc-Woodbend CGU due to the carrying value exceeding the estimated recoverable amount.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved plus probable reserve values from Altura's December 31, 2019 reserve report prepared by its independent reserve evaluator, updated using forward commodity price estimates at April 1, 2020, revised operating cost assumptions and timing of future development costs and removed production from January 1, 2020 to March 31, 2020. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included value for certain undeveloped land included in property and equipment based on management's estimates as at March 31, 2020, based principally on relevant land sales. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 17 percent.

As at June 30, 2020, there were no triggers to perform an impairment test or reversal of prior impairments on Altura's property and equipment.

Deferred Taxes

The Corporation recognized a deferred tax recovery of nil and $1,472,000 in the three and six months ended June 30, 2020, respectively, compared to deferred tax expenses of $195,000 and $593,000 in the same periods of 2019. The deferred tax recovery is due to the pre-tax loss recorded in the first half of 2020 which reduced the Corporation's deferred tax liability to nil. Altura has not recognized a deferred tax asset at June 30, 2020 as Altura did not feel there was sufficient certainty regarding the future utilization of all of its tax pools due to the significant decrease in forecast prices caused by the COVID-19 pandemic.

Net Income (Loss) and Adjusted Funds Flow

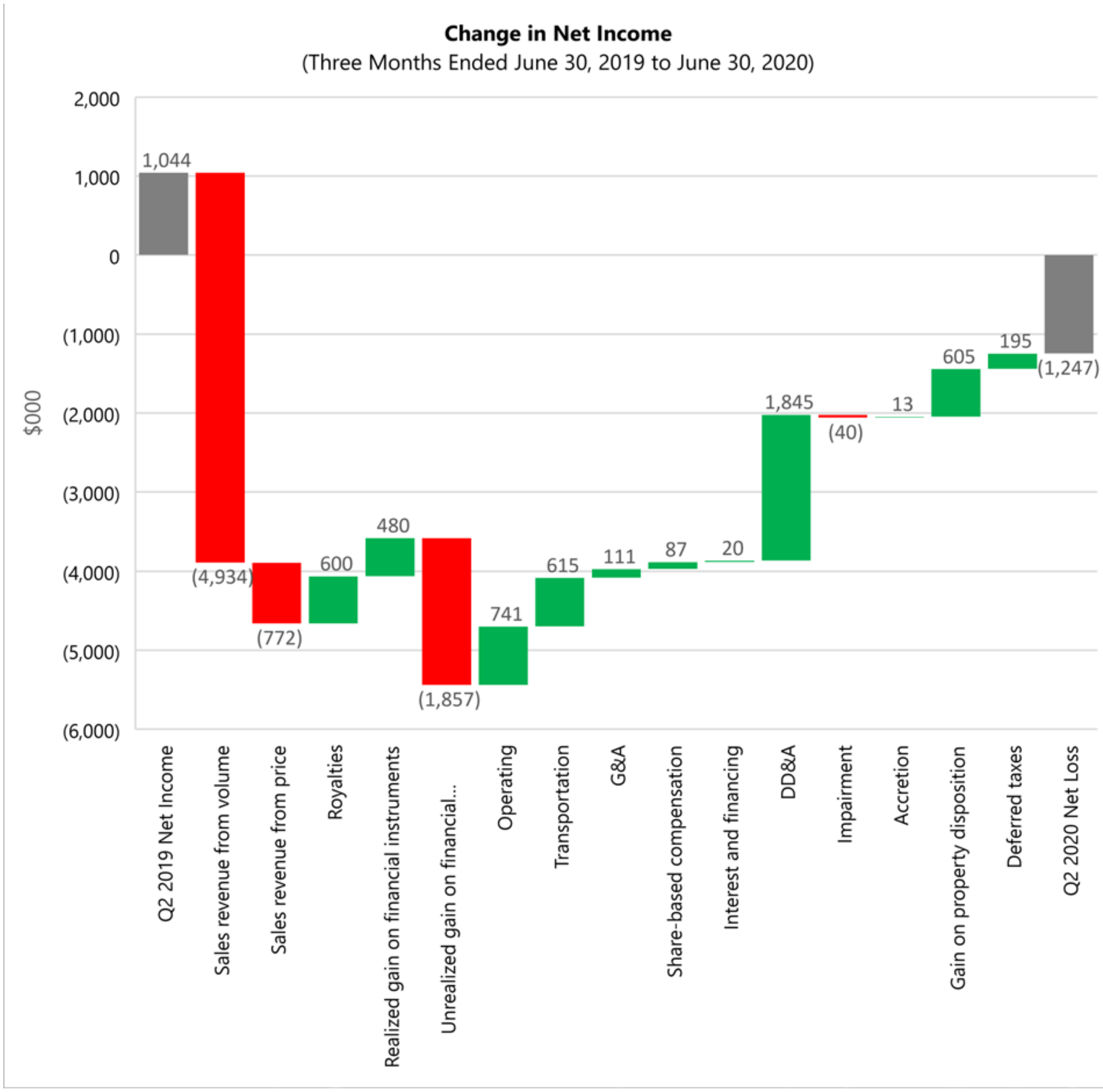
	Three months ended June 30			**Six months ended June 30**		
($000, except per share amounts and per boe)	**2020**	2019	% Change	**2020**	2019	% Change
Net income (loss)	**(1,247)**	1,044	(219)	**(32,776)**	1,973	(>500)
Per share – basic	**(0.01)**	0.01	(200)	**(0.30)**	0.02	(>500)
Per share – diluted(1)	**(0.01)**	0.01	(200)	**(0.30)**	0.02	(>500)
Cash flow from operating activities	**512**	3,568	(86)	**1,695**	5,858	(71)
Per share – diluted	**-**	0.03	(100)	**0.02**	0.05	(60)
Adjusted funds flow(2)	**204**	3,346	(94)	**1,306**	7,499	(83)
Per share – diluted(2)	**-**	0.03	(100)	**0.01**	0.07	(86)
Adjusted funds flow per boe(2)	**5.11**	23.12	(78)	**8.51**	23.47	(64)

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

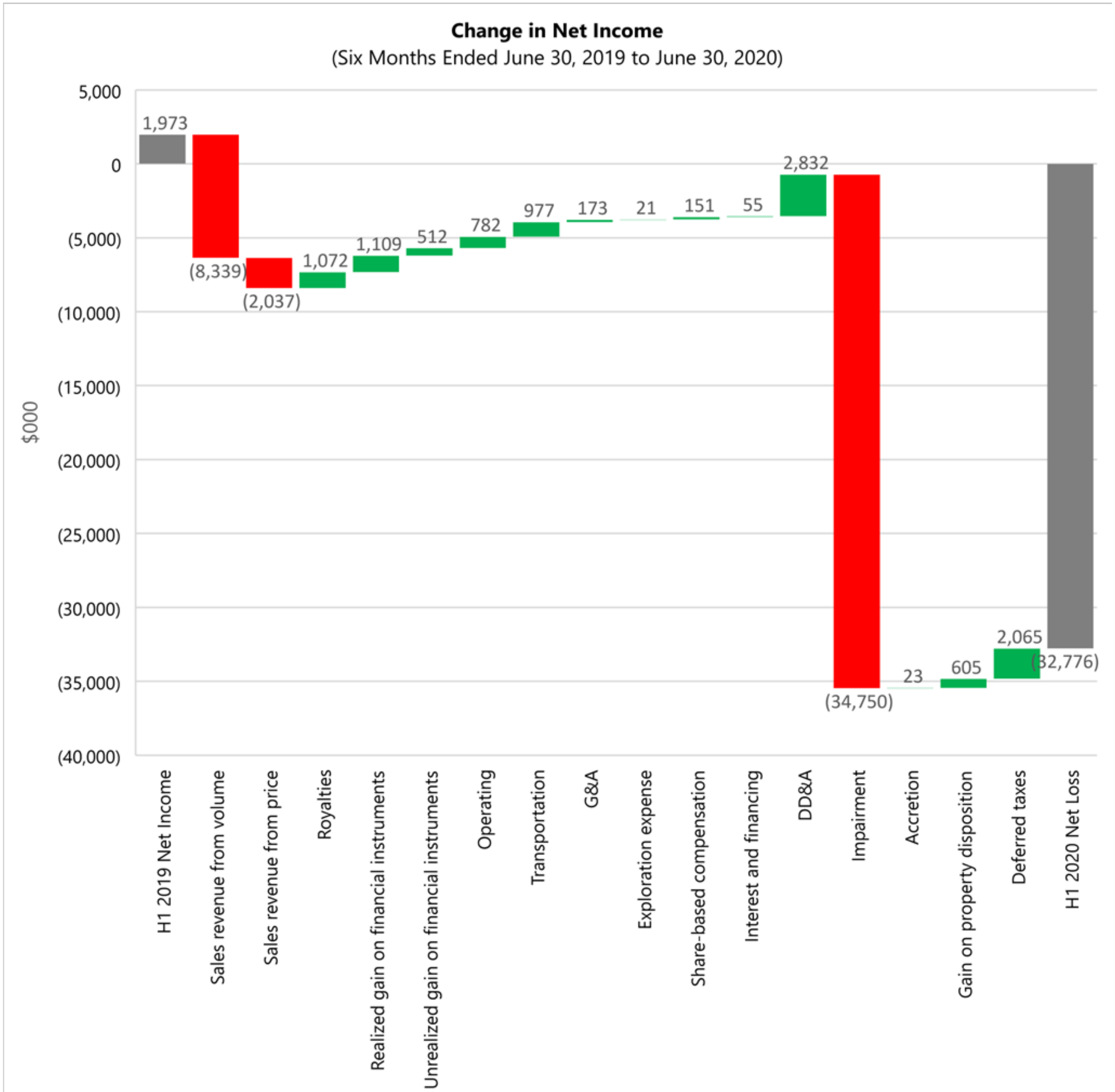
(2) Adjusted funds flow is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

Net Income (Loss)

In the second quarter of 2020, net income decreased to a net loss of $1,247,000 compared to net income of $1,044,000 in the second quarter of 2019. The decreased net income primarily reflects decreased sales revenue from lower production volumes and decreased crude oil prices, and an increased unrealized loss of financial instruments, partially offset by lower royalties, increased realized gain on financial instruments, lower operating costs, transportation costs and DD&A, and a gain on property disposition.

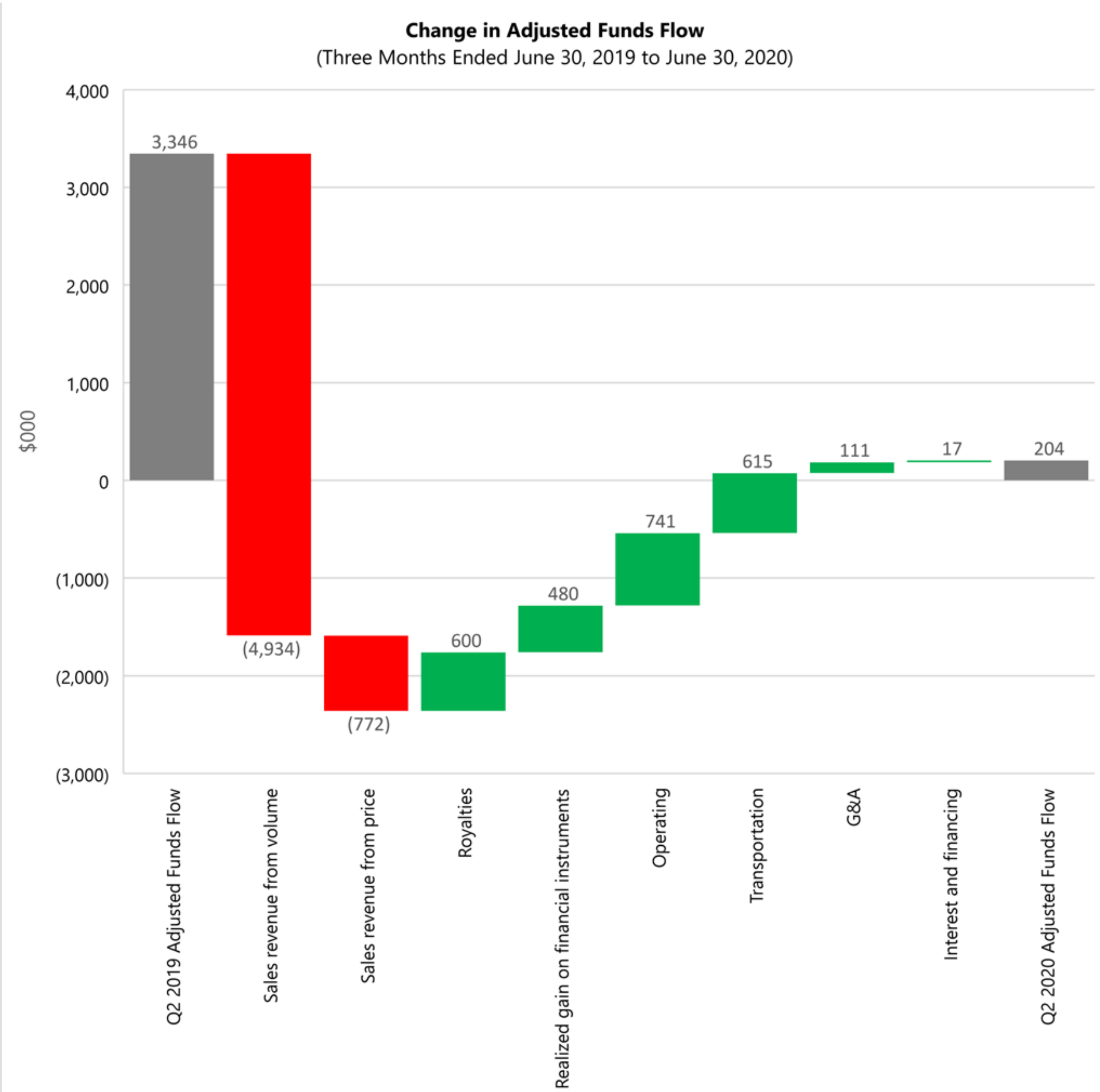


In the first half of 2020, net income decreased to a net loss of $32.8 million compared to net income of $2.0 million in the first half of 2019. The decreased net income primarily reflects impairment and decreased sales revenue from lower production volumes and decreased crude oil prices, partially offset by gains on financial instruments, lower royalties, operating costs, transportation costs and DD&A, a gain on property disposition and a recovery of deferred taxes.

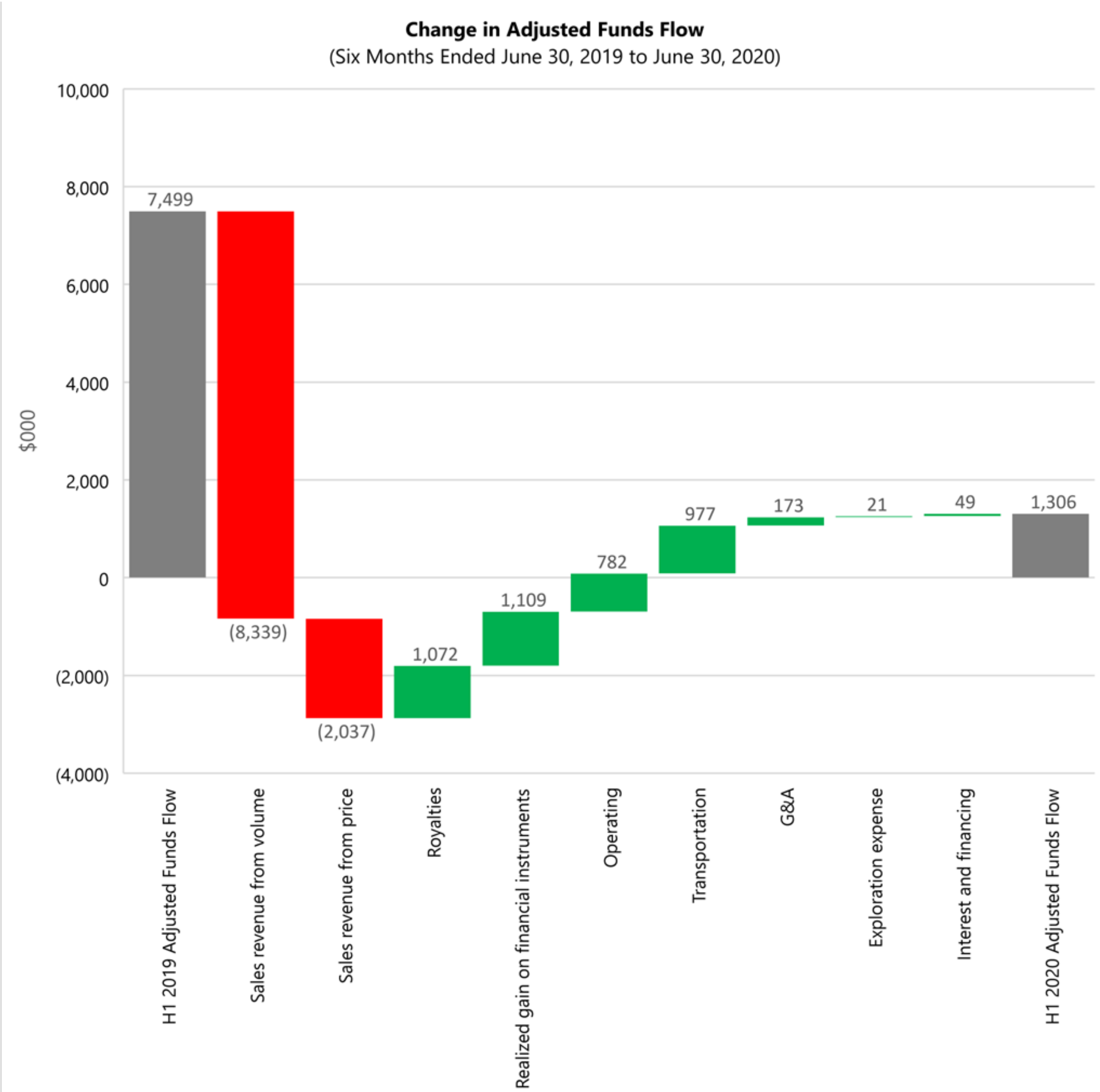


Adjusted Funds Flow

In the second quarter of 2020, adjusted funds flow decreased by $3,142,000 to $204,000 compared to $3,346,000 in the second quarter of 2019. The decrease primarily reflects decreased sales revenue from lower production volumes and decreased crude oil prices, partially offset by a gain on realized financial instruments, and lower royalties, operating costs, transportation costs and G&A.



In the first half of 2020, adjusted funds flow decreased by $6,193,000 to $1,306,000 compared to $7,499,000 in the first half of 2019. The decrease primarily reflects decreased sales revenue from lower production volumes and decreased crude oil prices, partially offset by a gain on realized financial instruments, and lower royalties, operating costs, transportation costs and G&A.



Capital Expenditures

	Three months ended June 30			Six months ended June 30		
($000)	**2020**	2019	% Change	**2020**	2019	% Change
Geological and geophysical	**-**	26	(100)	**3**	36	(92)
Land	**26**	713	(96)	**352**	751	(53)
Drilling and completions	**71**	3,251	(98)	**6,319**	3,242	95
Workovers	**18**	374	(95)	**6**	866	(99)
Equipping and tie-in	**-**	672	(100)	**336**	883	(62)
Facilities and pipelines	**3**	734	(100)	**34**	1,322	(97)
Other	**100**	580	(83)	**250**	703	(64)
Capital expenditures	**218**	6,350	(97)	**7,300**	7,803	(6)
Property dispositions	**(871)**	-	-	**(871)**	-	-
Total capital expenditures	**(653)**	6,350	(110)	**6,429**	7,803	(18)

Capital expenditures were allocated as follows:

	Three months ended June 30			Six months ended June 30		
($000)	**2020**	2019	% Change	**2020**	2019	% Change
Exploration and evaluation	**72**	969	(93)	**3,990**	969	312
Property and equipment	**146**	5,381	(97)	**3,310**	6,834	(52)
Total capital expenditures	**218**	6,350	(97)	**7,300**	7,803	(6)

In March 2020, Altura halted all discretionary capital expenditures in response to the impacts of COVID-19 on the global economy. In the first half of 2020, prior to the COVID-19 pandemic, Altura invested $3.3 million in property and equipment at Leduc-Woodbend. The Corporation completed a horizontal oil well in January 2020 that was drilled in the third quarter of 2019. The well was equipped for production and brought on stream in the first quarter of 2020. Additionally, Altura drilled a horizontal oil well (93% working interest) in January 2020 at Leduc-Woodbend that has not been completed.

Altura incurred $4.0 million in E&E asset additions in the first half of 2020. E&E asset additions included land acquisition costs and drilling, completing, and equipping a horizontal well targeting the Pekisko Formation in the Entice area.

On June 30, 2020, Altura closed the 1.375% Asset Disposition for cash proceeds of $871,000 as discussed in the "Asset Disposition" section of this MD&A on page 6.

Decommissioning Liability

At June 30, 2020, Altura's decommissioning liability was $5.8 million (December 31, 2019 - $5.4 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 used to calculate the undiscounted total future liability. The future liability has been inflated at 0.99 percent (December 31, 2019– 1.35 percent) and discounted at the Bank of Canada's long-term risk-free bond rate of 1.01 percent (December 31, 2019 – 1.76 percent).

Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the three and six months ended June 30, 2020, accretion expense totaled $13,000 and $31,000 (June 30, 2019 - $26,000 and $54,000), respectively.

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 7.89 at July 4, 2020. 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 7.89 at July 4, 2020, consistent with its LMR.

CAPITAL RESOURCES AND LIQUIDITY

Net debt as at June 30, 2020 and December 31, 2019 is summarized as follows:

($000)	**June 30, 2020**	December 31, 2019
Current assets	**(1,333)**	(2,110)
Current liabilities	**6,288**	3,168
Working capital deficit	**4,955**	1,058
Fair value of financial instruments	**443**	(432)
Current portion of lease liabilities	**(48)**	(48)
Current portion of decommissioning liability	**(15)**	(15)
Net debt[1]	**5,335**	563
Net debt to annualized adjusted funds flow[1][2]	**6.54**	0.05

(1) 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 13 "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 $5.3 million as at June 30, 2020 increased from $0.6 million at December 31, 2019 due to capital expenditures in the first half of 2020 exceeding adjusted funds flow. The increased net debt and decreased adjusted funds flow in the second quarter of 2020 resulted in net debt to annualized adjusted funds flow increasing to 6.54 times at June 30, 2020 compared to 0.05 times at December 31, 2019.

Working Capital

Altura targets to maintain sufficient unused credit facility capacity to satisfy working capital deficiencies. The Corporation had a working capital deficit of $5.0 million at June 30, 2020 compared to a working capital deficit of $1.1 million at December 31, 2019. At June 30, 2020, the major components of Altura's current assets were accounts receivable (46 percent) to be received from its oil and gas marketers in respect to June production and joint interest partners, and the fair value of financial instruments (33 percent). 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 bank debt (78 percent), and trade and joint interest payables (8 percent) and accrued liabilities (11 percent) related to the Corporation's operations. The Corporation manages its working capital using a combination of its cash flow from operating activities and advances under its revolving operating demand loan 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 Facilities

The Corporation has a revolving operating demand loan (the "Operating Loan") with a Canadian bank (the "Lender"). Altura's Operating Loan was reviewed in April 2020, on an interim basis, and the borrowing base was reduced to $7.5 million from the previous $9.0 million borrowing base. The Operating Loan is payable on demand and contains customary material adverse change clauses. The Operating Loan bore interest 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 Operating Loan and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan 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, 2020, the working capital ratio as defined was 2.5:1 (December 31, 2019 – 4.0:1) and the Corporation was compliant with the LLR covenant. In June 2020, Altura's Lender waived the hedging covenant for the quarter ended June 30, 2020 relating to maintaining hedge agreements for the succeeding nine-month period.

As at June 30, 2020, $4.9 million (December 31, 2019 - $nil) was drawn on the Operating Loan and the Corporation had an outstanding letter of credit for $50,000 (December 31, 2019 - $160,000).

Altura's Operating Loan was reviewed in July 2020, on an interim basis, and the maximum borrowing limit was decreased to $6.0 million.

In August 2020, Altura and its lender completed the redetermination of its Operating Loan and the borrowing base was confirmed at $6.0 million. Additionally, Altura secured a $3.0 million term loan from its Lender through the Business Credit Availability Program ("BCAP") Guarantee from the Export Development Bank of Canada ("EDC") (the "Term Loan").

The Term Loan is a non-revolving term facility to be used exclusively to provide additional liquidity to finance Altura's business operations. The Corporation plans to use the Term Loan to pay operating expenses, G&A expenses, interest on the Operating Loan, lease payments and pay down temporary advances on Altura's Operating Loan. The Term Loan cannot be used to repay or refinance permanent reductions to the Operating Loan or to make shareholder contributions, shareholder loans, share buy backs, or pay any bonuses or increase executive compensation.

On August 27, 2020, the Corporation withdrew the full $3.0 million available on the Term Loan. The Term Loan is payable on demand by Altura's Lender and is non-revolving, therefore amounts repaid cannot be reborrowed.

The Term Loan has a five-year maturity with no less than 50% of amounts outstanding due on August 27, 2024 and the remaining balance due on August 27, 2025.

The interest rate on the Operating Loan and Term Loan (collectively the "Credit Facilities") is the Lender's prime rate plus 4.5 percent per annum. Fees for Letters of Credit issued under the Operating Loan have increased to 3.5 percent (from 2.25 percent) and standby fees on the unused portion of the authorized amount of the Operating Loan have increased to 1.125 percent (from 0.35 percent). Certain Credit Facilities covenants to be observed by the Corporation will be as follows:

- the Corporation is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facilities and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan is added to current assets.
- the Corporation will, at all times, maintain hedging agreements covering no less than 30 percent of Altura's forecasted total production for no less than the succeeding nine-month period, on a rolling basis whereby at least fifty percent of the hedged volumes (on a barrels of oil equivalent basis) must be crude oil hedges (Western Canadian Select);
- the Corporation will maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. and,
- Altura shall not make any significant capital expenditures between August 27, 2020 to January 31, 2021.

At August 27, 2020 the Corporation was compliant with all covenants. The next review date for the Credit Facilities has been scheduled for May 31, 2021 but may be set at an earlier or later date at the sole discretion of the Lender.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, future liquidity depends on the ability of the Corporation to access debt markets and generate cash flow from operations, which are also impacted by the availability under Altura's Credit Facilities and additional equity. Various industry risk factors, including uncertainty around improvements in global commodity prices and pipeline and transportation capacity constraints in Western Canada, may adversely affect the Corporation's future liquidity as pertains to these operational and financing requirements. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities are due on demand.

Shareholders' Equity

At June 30, 2020 there were 108,920,974 common shares outstanding, 9,749,879 performance warrants outstanding and 9,693,333 stock options outstanding. The number of common shares and performance warrants remain unchanged from December 31, 2019.

At August 27, 2020 the number of common shares, and stock options outstanding remain unchanged from June 30, 2020. On July 31, 2020, 9,400,000 performance warrants expired and on August 28, 2020 the remaining 349,879 performance warrants are set to expire.

Capital Resources

In March 2020, Altura halted all discretionary capital expenditures in response to the impacts of COVID-19 on the global economy. In August 2020, Altura's Credit Facilities were renewed, and the Corporation has sufficient liquidity to meet its obligations.

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.

On June 30, 2020, Altura amended the timing of the second transaction in the December 4, 2019 definitive agreement (the "Amending Agreement") with a private company ("PrivateCo") for the sale of a 5.5% working interest in the Corporation's production, wells, lands and facilities for cash of $3.5 million (the "Second Transaction"). Altura is committed to close three additional working interest dispositions as discussed in the "Asset Disposition" section of this MD&A. The December 4, 2019 agreement included a drilling commitment related to the Second Transaction ("Commitment Well"), whereby Altura committed to the drilling of a horizontal well in either the Entice area or the Leduc-Woodbend area on or before December 31, 2020. Given the current environment, drilling risk profile and capital efficiency in each of the areas, the parties have agreed the well will be drilled at Leduc-Woodbend at a time when commodity prices support well economics. Estimated total gross drill, completion and equipping costs of the well is $2.5 million. PrivateCo will pay 12.5% of the well costs and earn a 12.5% working interest in the well and the optional third funding transaction contemplated by the December 4, 2019 agreement will not be executed by PrivateCo.

Altura is also committed to drill one horizontal well by December 31, 2020 in the Leduc-Woodbend area pursuant to a freehold petroleum lease agreement. The Corporation is subject to a non-performance penalty of $125,000 if the commitment is not fulfilled.

SUMMARY OF QUARTERLY INFORMATION

	2020		2019				2018	
Quarters Ended	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
OPERATING								
Average daily production								
Heavy oil (bbls/d)	**213**	667	881	1,150	1,016	1,404	1,044	805
Light & medium oil (bbls/d)	**-**	8	-	-	-	68	46	51
Natural gas (Mcf/d)	**1,154**	2,926	3,406	3,733	2,914	2,510	1,699	1,128
NGLs (bbls/d)	**30**	87	113	108	88	47	38	23
Total (boe/d)	**435**	1,250	1,561	1,880	1,591	1,939	1,412	1,067
Average realized sales price								
Heavy oil ($/bbl)	**21.39**	33.06	54.40	55.31	62.83	51.62	25.28	56.59
Light & medium oil ($/bbl)	**-**	20.85	-	-	-	48.97	51.44	66.74
Natural gas ($/Mcf)	**2.06**	2.20	2.70	0.95	1.30	2.06	1.74	1.23
NGLs ($/bbl)	**6.46**	22.02	26.64	24.42	24.23	37.16	40.19	51.30
Total ($/boe)	**16.36**	24.46	38.50	37.12	43.89	42.71	23.57	48.29
($/boe)								
Petroleum and natural gas sales	**16.36**	24.46	38.50	37.12	43.89	42.71	23.57	48.29
Realized gain (loss) on financial instruments	**16.60**	5.53	0.53	(0.22)	1.23	-	-	-
Royalties	**0.28**	(1.96)	(4.43)	(4.20)	(4.08)	(3.98)	(2.40)	(4.57)
Operating expenses	**(16.27)**	(12.19)	(8.63)	(6.92)	(9.56)	(8.18)	(6.16)	(7.09)
Transportation expenses	**(2.46)**	(2.49)	(2.45)	(2.93)	(4.92)	(3.70)	(2.45)	(2.17)
Operating netback[(1)]	**14.51**	13.35	23.52	22.85	26.56	26.85	12.56	34.46
General and administrative	**(7.98)**	(3.50)	(2.52)	(2.16)	(2.94)	(2.64)	(5.99)	(4.25)
Exploration expense	**-**	-	-	-	-	(0.12)	(0.04)	(0.21)
Interest and financing expense (cash)	**(1.42)**	(0.17)	(0.37)	(0.27)	(0.50)	(0.29)	(0.18)	(0.03)
Interest income	**-**	-	-	-	-	-	-	0.34
Adjusted funds flow per boe[(1)]	**5.11**	9.68	20.63	20.42	23.12	23.80	6.35	30.31
FINANCIAL ($000, except per share)								
Petroleum and natural gas sales	**647**	2,783	5,531	6,420	6,353	7,453	3,062	4,741
Cash flow from operating activities	**512**	1,183	3,955	3,181	3,568	2,290	4,200	831
Per share – diluted	**-**	0.01	0.04	0.03	0.03	0.02	0.04	0.01
Adjusted funds flow[(1)]	**204**	1,102	2,963	3,532	3,346	4,153	826	2,977
Per share – diluted[(1)]	**-**	0.01	0.03	0.03	0.03	0.04	0.01	0.03
Net income (loss)	**(1,247)**	(31,529)	(56)	298	1,044	929	(984)	750
Per share – basic	**(0.01)**	(0.29)	-	-	0.01	0.01	(0.01)	0.01
Per share – diluted[(2)]	**(0.01)**	(0.29)	-	-	0.01	0.01	(0.01)	0.01
($000)								
Capital expenditures	**218**	7,082	1,528	3,553	6,350	1,453	3,050	16,717
Property acquisitions (dispositions)	**(871)**	-	(3,508)	-	-	-	986	2,637
Total assets	**24,517**	26,895	55,053	61,202	59,719	55,704	54,023	54,793
Net debt[(1)]	**5,335**	6,183	563	5,130	5,109	2,105	4,805	1,872
Shareholders' equity	**12,309**	13,456	44,856	44,748	44,251	42,983	41,867	42,633
Common shares outstanding (000)								
Weighted average for the period - basic[(2)]	**108,921**	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted[(2)]	**108,921**	108,936	109,097	109,517	110,503	110,430	110,260	112,281
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 2018 are the result of changes in oil and gas volumes sold as well as changes in Altura's average realized price. Production volumes increased in the fourth quarter 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. Two wells were brought on production in the third quarter of 2019, increasing average production volumes. Average production volumes declined in the fourth quarter of 2019 from no new wells being brought on production and the 7% Asset Disposition.

Average production volumes declined in the first quarter of 2020 from natural declines and increased down-time associated with repairs and maintenance activity. In the second quarter of 2020, Altura curtailed production volumes as a result of the severe decline in oil prices associated with the COVID-19 pandemic. 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 oil production curtailment. Realized crude oil prices declined significantly in the first half of 2020 due to the COVID-19 pandemic.

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 three quarters of 2019 included drilling three and completing two horizontal wells at Leduc-Woodbend and one vertical well in a new area. Additionally, capital investment in 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, third and fourth quarters of 2019, Altura changed its artificial lift system on 11 wells to improve run-time efficiencies and limit operating and capital workover events. In the fourth quarter of 2019, Altura completed the 7% Asset Disposition for cash of $3.5 million. In the first quarter of 2020, Altura completed a horizontal oil well (93% working interest) that was drilled in the third quarter of 2019, drilled a horizontal oil well (93% working interest) at Leduc-Woodbend and drilled and completed a horizontal well (93% working interest) targeting the Pekisko Formation at Entice. In the second quarter of 2020, Altura closed a disposition of 1.375% disposition for $871,000.

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. Net income decreased in the second half of 2019 due to lower heavy oil production volumes. In the first quarter of 2020, Altura recorded a net loss of $31.5 million, due to impairment and lower heavy oil production volumes and decreased crude oil prices. In the second quarter of 2020, Altura recorded a net loss of $1.2 million due to severe decline in realized 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.

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

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

Recoverable Amounts

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

Credit Facilities

The Corporation's Credit Facilities are payable on demand and contain customary material adverse change clauses. The maximum borrowing limit of the Operating Loan is based on the Lender's interpretation of the Corporation's reserves, future commodity prices and costs. As the maximum borrowing limit of the Operating Loan is based on the lender's interpretation of the Corporation's reserves and future commodity prices and costs, there can be no assurance that the amount of the Operating Loan will not be adjusted at the next scheduled review. Forecasted commodity prices have decreased significantly in the first half of 2020 which could impact the Lender's interpretation of the future value of the Corporation's reserves.

Accounts Receivable

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

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.

Natural disasters, wars, terrorist attacks, riots or civil unrest, public health crises, including epidemics, pandemics or outbreaks of new infectious disease or viruses including COVID-19, and related events, could materially and negatively impact the Corporation's business, its revenues and ultimately its profitability. Such events or occurrences may have a materially negative affect on one or more factors upon which the Corporation's business relies, including without limitation the demand for, and therefore the price of, the natural resource products produced by the Corporation, supply chains to operate its business, and the availability of capital required by the Corporation to fund its operations.

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.

Climate change regulation has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Canada. In addition, the Supreme Court's decision in *Orphan Well Association v Grant Thornton Limited* may impact the manner in which provincial regulators seek to regulate their liability management and end-of-life asset retirement regimes. Such climate change and other environmental regulations impose certain costs and risks on the industry, and there remains some uncertainty with regard to the impacts of federal or provincial climate change and environmental laws and regulations, as Altura is unable to predict additional legislation or amendments that governments may enact in the future. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Corporation's operations and adjusted funds flow.

Additional information is available in Altura's AIF that is filed on SEDAR at www.sedar.com.

CHANGES IN ACCOUNTING POLICIES

The Corporation adopted IFRS 3, "Business Combinations", on January 1, 2020. Amendments to IFRS 3 were issued by the IASB in October 2018 that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets are concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is not applied, or the test is failed, then the assessment focuses on the existence of a substantive process. The adoption of IFRS 3 had no impact to the Corporation's Financial Statements.

In the second quarter of 2020, Altura added a new accounting policy related to government grants. Altura recognizes government grants as they are received or if there is reasonable assurance that the Corporation is in compliance with all associated conditions. When the grant relates to an expense item, it is recognized as a reduction to the related expense in the period in which the costs are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

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", "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 (loss) and Adjusted Funds Flow" section of this MD&A on page 17. 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:

	Three months ended June 30		**Six months ended June 30**	
($000)	**2020**	2019	**2020**	2019
Net income (loss)	**(1,247)**	1,044	**(32,776)**	1,973
Adjusted for the following non-cash items				
Deferred tax expense (recovery)	**-**	195	**(1,472)**	593
Depletion, depreciation and amortization	**429**	2,274	**2,079**	4,911
Impairment	**40**	-	**34,750**	-
Accretion of decommissioning liability	**13**	26	**31**	54
Share-based compensation	**80**	167	**174**	325
Gain on property disposition	**(605)**	-	**(605)**	-
Lease interest	**-**	3	**-**	6
Unrealized loss (gain) on financial instruments	**1,494**	(363)	**(875)**	(363)
Adjusted funds flow	**204**	3,346	**1,306**	7,499
Changes in non-cash operating working capital	**308**	222	**389**	(1,641)
Cash flow from operating activities	**512**	3,568	**1,695**	5,858

Net Debt

Management views net debt as key industry benchmarks and measures to assess the Corporation's financial position and liquidity. Net debt is calculated as current assets, excluding the fair value of financial instruments less current liabilities, excluding the fair value of financial instruments, less 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. Altura's net debt is disclosed in the "Capital Resources and Liquidity" section of this MD&A on page 23.

Operating Netback

Altura calculates operating netback on a per boe basis as petroleum and natural gas sales plus (minus) realized gain (loss) 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 14.

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:

- uncertainty about the COVID-19 pandemic and the impact it will have on Altura's operations, the demand for Altura's products, and economic activity in general;
- Altura's plan to bring on three shut-in Leduc-Woodbend wells by mid-September;
- forecasted production volumes to range between 1,000 and 1,100 boe per day for the second half of 2020;
- the expected closing of three additional dispositions of a 1.375% working interest for $875,000 each on September 30, 2020, January 31, 2021 and June 30, 2021; and,
- forecasted reduction of net debt to approximately $3.5 million by the end of the year.

The forward-looking information and statements contained in this MD&A and first quarter 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 return of industry conditions to pre-COVID-19 levels;
- 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, among other things, fund its planned expenditures.

Altura believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable based on prior operating history but no assurance can be given that these factors, expectations and assumptions will prove to be correct particularly in the current operating environment which is unprecedented by any standard. 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 budgeted 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 first quarter 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:

- the COVID-19 pandemic and related disruptions in oil and gas markets, including the duration and impacts thereof;
- changes in commodity prices including, without limitation, as a result of COVID-19 pandemic;
- changes in commodity prices including, without limitation, as a result of the COVID-19 pandemic and related disruptions in oil and gas markets;
- unanticipated operating results or production declines;

- public health crises, such as the recent outbreak of COVID-19 and the related economic disruption that can result in volatility in financial markets, disruption to global supply chains, and the ability to directly and indirectly staff the Corporation's day to day operations;
- changes in tax or environmental laws, royalty rates or other regulatory matters;
- changes in development plans of Altura or by third-party operators 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 or debt 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, 2020**	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**-**	142
Accounts receivable (note 13)	**761**	1,819
Prepaid expenses and deposits	**129**	149
Fair value of financial instruments (note 13)	**443**	-
	1,333	2,110
Exploration and evaluation (note 5)	**198**	1,170
Property and equipment (note 6)	**22,986**	51,574
Right-of-use assets (note 7)	**-**	199
Total assets	**24,517**	55,053
LIABILITIES		
Current liabilities		
Bank debt (note 8)	**4,930**	-
Accounts payable and accrued liabilities	**1,295**	2,305
Current portion of lease liabilities (note 9)	**48**	48
Current portion of decommissioning liability (note 10)	**15**	15
Contract liability	**-**	368
Fair value of financial instruments (note 13)	**-**	432
	6,288	3,168
Lease liabilities (note 9)	**177**	194
Decommissioning liability (note 10)	**5,743**	5,363
Deferred taxes	**-**	1,472
Total liabilities	**12,208**	10,197
SHAREHOLDERS' EQUITY		
Share capital (note 11)	**37,712**	37,712
Performance warrants (note 11e)	**2,623**	2,517
Contributed surplus	**4,500**	4,377
Retained earnings (deficit)	**(32,526)**	250
Total shareholders' equity	**12,309**	44,856
Total liabilities and shareholders' equity	**24,517**	55,053

Commitments (notes 4 and 16)
Subsequent events (notes 8 and 13)

See accompanying notes to the interim condensed consolidated financial statements.

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

	Three months ended June 30		Six months ended June 30	
($000, except per share amounts)	**2020**	2019	**2020**	2019
REVENUE				
Petroleum and natural gas sales (note 12)	**647**	6,353	**3,430**	13,806
Royalties	**11**	(589)	**(212)**	(1,284)
Realized gain on financial instruments	**658**	178	**1,287**	178
Unrealized gain (loss) on financial instruments (note 13)	**(1,494)**	363	**875**	363
	(178)	6,305	**5,380**	13,063
EXPENSES				
Operating	**644**	1,385	**2,030**	2,812
Transportation	**97**	712	**380**	1,357
General and administrative	**315**	426	**714**	887
Exploration expense	**-**	-	**-**	21
Share-based compensation (note 11)	**80**	167	**174**	325
Interest and financing charges	**56**	76	**75**	130
Depletion, depreciation and amortization (notes 6 and 7)	**429**	2,274	**2,079**	4,911
Impairment (notes 5, 6 and 7)	**40**	-	**34,750**	-
Accretion of decommissioning liability (note 10)	**13**	26	**31**	54
Gain on property disposition (note 4)	**(605)**	-	**(605)**	-
	1,069	5,066	**39,628**	10,497
Income (loss) before taxes	**(1,247)**	1,239	**(34,248)**	2,566
Deferred tax expense (recovery)	**-**	195	**(1,472)**	593
Net income (loss) and comprehensive income (loss)	**(1,247)**	1,044	**(32,776)**	1,973
Net income (loss) per share, (note 11d)				
Basic	**(0.01)**	0.01	**(0.30)**	0.02
Diluted	**(0.01)**	0.01	**(0.30)**	0.02

See accompanying notes to the interim condensed consolidated financial statements.

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

For the periods ended June 30

($000)	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2018	37,712	2,176	3,944	(1,965)	41,867
Share-based compensation expense (note 11)	-	183	142	-	325
Share-based compensation capitalized (note 11)	-	33	53	-	86
Net income for the period	-	-	-	1,973	1,973
Balance, June 30, 2019	**37,712**	2,392	4,139	8	44,251
Balance, December 31, 2019	37,712	2,517	4,377	250	44,856
Share-based compensation expense (note 11)	-	86	88	-	174
Share-based compensation capitalized (note 11)	-	20	35	-	55
Net loss for the period	-	-	-	(32,776)	(32,776)
Balance, June 30, 2020	**37,712**	**2,623**	**4,500**	**(32,526)**	**12,309**

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended June 30		Six months ended June 30	
($000)	**2020**	2019	**2020**	2019
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss) for the period	**(1,247)**	1,044	**(32,776)**	1,973
Items not involving cash:				
Deferred tax expense (recovery)	**-**	195	**(1,472)**	593
Depletion, depreciation and amortization (notes 6 and 7)	**429**	2,274	**2,079**	4,911
Impairment (notes 5, 6 and 7)	**40**	-	**34,750**	-
Accretion of decommissioning liability (note 10)	**13**	26	**31**	54
Lease interest	**-**	3	**-**	6
Share-based compensation (note 11)	**80**	167	**174**	325
Gain on property disposition (note 4)	**(605)**	-	**(605)**	-
Unrealized loss (gain) on financial instruments (note 13)	**1,494**	(363)	**(875)**	(363)
Change in non-cash working capital (note 15)	**308**	222	**389**	(1,641)
	512	3,568	**1,695**	5,858
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES				
Change in bank debt (note 8)	**1,488**	(426)	**4,930**	(679)
Repayment of principal relating to lease liabilities	**(9)**	-	**(17)**	-
	1,479	(426)	**4,913**	(679)
CASH FLOW USED IN INVESTING ACTIVITIES				
Property and equipment expenditures	**(146)**	(5,381)	**(3,310)**	(6,834)
Exploration and evaluation asset expenditures	**(72)**	(969)	**(3,990)**	(969)
Property disposition (note 4)	**871**	-	**871**	-
Change in non-cash working capital (note 15)	**(2,644)**	3,208	**(321)**	2,624
	(1,991)	(3,142)	**(6,750)**	(5,179)
CHANGE IN CASH AND CASH EQUIVALENTS	**-**	-	**(142)**	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**-**	-	**142**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**-**	-	**-**	-
Cash interest paid	**56**	73	**75**	124

See accompanying notes to the interim condensed consolidated financial statements.

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, 2019, except as noted in notes 2c and 3. In the opinion of management, these Financial Statements contain all adjustments necessary to present fairly Altura’s financial position as at June 30, 2020 and the results of its operations and cash flows for the three and six months ended June 30, 2020 and 2019. 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, 2019, 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 27, 2020.

(b) Significant Accounting Policies

Government Grants

Altura recognizes government grants as they are received or if there is reasonable assurance that the Corporation is in compliance with all associated conditions. When the grant relates to an expense item, it is recognized as a reduction to the related expense in the period in which the costs are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

(c) 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.

(d) Functional and Presentation Currency

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

(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.

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

In addition, increased global supply due to a disagreement over production restrictions to match demand between Russia and Saudi Arabia resulted in substantial negative pressure on commodity prices. Consequently, the effect of these two events created a dramatic decrease in commodity prices which resulted in a decline in Altura's share price and market capitalization since year-end 2019. The potential risk and impact due to the events described above relating to the Corporation has been taken into consideration in management's estimates used for the period end. However, there could be a further prospective material impact in future periods.

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

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

Recoverable Amounts

Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices. Refer to note 6 for discussion regarding impairment.

Credit Facilities

The Corporation's credit facilities are payable on demand and contain customary material adverse change clauses. The maximum borrowing limit of the revolving operating demand loan (the "Operating Loan") is based on the Lender's interpretation of the Corporation's reserves, future commodity prices and costs. As the maximum borrowing limit of the Operating Loan is based on the lender's interpretation of the Corporation's reserves and future commodity prices and costs, there can be no assurance that the amount of the Operating Loan will not be adjusted at the next scheduled review. Forecasted commodity prices have decreased significantly in the first half of 2020 which could impact the Lender's interpretation of the future value of the Corporation's reserves. Refer to note 8 for discussion regarding Altura's credit facilities.

Accounts Receivable

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

3. CHANGES IN ACCOUNTING POLICIES

The Corporation adopted IFRS 3, "Business Combinations", on January 1, 2020. Amendments to IFRS 3 were issued by the IASB in October 2018 that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets are concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is not applied, or the test is failed, then the assessment focuses on the existence of a substantive process. The adoption of IFRS 3 had no impact to the Corporation's Financial Statements.

4. DISPOSITION

On June 30, 2020, Altura amended the timing of the second transaction in the December 4, 2019 definitive agreement (the "Amending Agreement") with a private company ("PrivateCo") for the sale of a 5.5% working interest in the Corporation's production, wells, lands and facilities for cash of $3.5 million (the "Second Transaction"). The Second Transaction has been amended to close in four stages as follows:

Stage	Closing Date	Disposition Interest	Cash Proceeds
Stage 1	June 30, 2020	1.375%	$875,000
Stage 2	September 30, 2020	1.375%	$875,000
Stage 3	January 31, 2021	1.375%	$875,000
Stage 4	June 30, 2021	1.375%	$875,000
Total		**5.500%**	**$3,500,000**

On June 30, 2020, Altura closed stage one of the Amending Agreement and divested of a 1.375% working interest in the Corporation's production, wells, lands and facilities for cash of $871,000 after transaction costs. Altura recorded $342,000 to D&P asset dispositions, $3,000 to E&E asset dispositions, reduced the decommissioning liability by $79,000 associated with the asset disposition and recorded a gain on disposition of $605,000 for the three months ended June 30, 2020.

The December 4, 2019 agreement included a drilling commitment related to the Second Transaction ("Commitment Well"), whereby Altura committed to the drilling of a horizontal well in either the Entice area or the Leduc-Woodbend area on or before December 31, 2020. Given the current environment, drilling risk profile and capital efficiency in each of the areas, the parties have agreed the well will be drilled at Leduc-Woodbend at a time when commodity prices support well economics. Estimated total gross drill, complete and equipping costs of the well is $2.5 million. Given that the parties have agreed for the Commitment Well to be drilled in the Leduc-Woodbend area, PrivateCo will pay 12.5% of the well costs and earn a 12.5% working interest in the well and the optional third funding transaction contemplated by the December 4, 2019 agreement will not be executed by PrivateCo.

5. EXPLORATION AND EVALUATION

The following table reconciles Altura's Exploration and Evaluation ("E&E") assets:

($000)	Total
Balance, December 31, 2018	-
Additions	1,224
Disposition	(85)
Change in decommissioning costs	31
Balance, December 31, 2019	**1,170**
Additions	3,768
Change in decommissioning costs	58
Disposition (note 4)	(3)
Impairment	(4,795)
Balance, June 30, 2020	**198**

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 at its Entice area during the periods. E&E asset additions in the six months ended June 30, 2020 include land, drilling, completion, and equipping costs related to a horizontal well drilled at Entice. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of $47,000 and $134,000 in the three and six months ended June 30, 2020 (June 30, 2019 – $51,000 and $51,000), respectively.

Impairment

March 31, 2020

As at March 31, 2020, the Corporation determined that indicators of impairment existed with respect to its E&E assets, which are all in the Entice area. For impairment testing, the recoverable amount of E&E assets was determined using internal estimates of the fair value of undeveloped land based principally on relevant land sales. For the three months ended March 31, 2020, Altura recognized an impairment charge of $4,755,000 (no impairment at December 31, 2019) on E&E assets.

June 30, 2020

During the three months ended June 30, 2020, Altura recorded an additional $40,000 of impairment to its E&E assets in the Entice area relating to additional well costs recorded in the three months ended June 30, 2020.

The impairment recorded in 2020 may be reversed at such time that the estimated recoverable amount of the impaired E&E assets increase.

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

6. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost ($000)	**Developed and Producing Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2018	60,204	178	60,382
Additions	11,843	15	11,858
Disposition	(5,064)	-	(5,064)
Change in decommissioning costs	(58)	-	(58)
Balance, December 31, 2019	66,925	193	67,118
Additions	3,214	5	3,219
Disposition (note 4)	(1,040)	-	(1,040)
Change in decommissioning costs	370	-	370
Balance, June 30, 2020	**69,469**	**198**	**69,667**
Depletion, depreciation and impairment ($000)			
Balance, December 31, 2018	(7,167)	(46)	(7,213)
Depletion, depreciation and amortization	(9,420)	(33)	(9,453)
Disposition	1,122	-	1,122
Balance, December 31, 2019	**(15,465)**	**(79)**	**(15,544)**
Depletion, depreciation and amortization	(2,054)	(14)	(2,068)
Disposition (note 4)	698	-	698
Impairment	(29,767)	-	(29,767)
Balance, June 30, 2020	**(46,588)**	**(93)**	**(46,681)**
Carry amounts ($000)			
As at December 31, 2019	51,460	114	51,574
As at June 30, 2020	**22,881**	**105**	**22,986**

Estimated future development costs of $81.4 million (December 31, 2019 – $85.8 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 $70,000 and $165,000 and in the three months and six months ended June 30, 2020 (June 30, 2019 – $149,000 and $289,000), respectively.

Impairment

March 31, 2020

At March 31, 2020, the Corporation determined there to be indicators of impairment in its Leduc-Woodbend CGU due to the potential long-term impact of the COVID-19 pandemic which caused a significant decline in forward oil benchmark prices and due to a decline in Altura's market capitalization in the first quarter of 2020. Altura has only one CGU. In the three months ended March 31, 2020, the Corporation recognized an impairment charge of $30.0 million (no impairment at December 31, 2019) related to its Leduc-Woodbend CGU due to the carrying value exceeding the estimated recoverable amount. Included in the impairment charge is $0.2 million related to impairment of the Corporation's right-of-use ("ROU") assets.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved plus probable reserve values from Altura's December 31, 2019 reserve report prepared by its independent reserve evaluator, updated using forward commodity price estimates at April 1, 2020, revised operating cost assumptions and timing of future development costs and removed production from January 1, 2020 to March 31, 2020. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included value for certain undeveloped land included in property and equipment and related to this CGU based on management's estimates as at March 31, 2020, based principally on relevant land sales. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 17 percent.

The following table details the forward pricing used in estimating the recoverable amount of Altura's Leduc-Woodbend CGU at March 31, 2020:

	WTI Crude Oil ($US/bbl) (1,2)	Western Canadian Select Crude Oil ($CAD/bbl) (1,2)	Alberta AECO Gas ($CAD/mmbtu) (1,2)	Foreign Exchange ($US/$CAD) (1)
2020 (9 mos)	29.17	19.21	1.74	0.707
2021	40.45	34.65	2.20	0.728
2022	49.17	46.34	2.38	0.745
2023	53.28	51.25	2.45	0.747
2024	55.66	54.28	2.53	0.748
2025	56.87	55.72	2.60	0.750
2026	58.01	56.96	2.66	0.750
2027	59.17	58.22	2.72	0.750
2028	60.35	59.51	2.79	0.750
2029	61.56	60.82	2.85	0.750
2030	62.79	62.04	2.91	0.750
2031	64.05	63.28	2.97	0.750
2032	65.33	64.55	3.03	0.750
2033	66.63	65.84	3.09	0.750
2034	67.97	67.15	3.15	0.750
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.750

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

(2) Product sale prices will reflect these reference prices with further adjustments for product quality differentials and transportation to point of sale.

The impairment recorded at March 31, 2020 may be reversed at such time that the estimated recoverable amount of the impaired property and equipment increases.

The following table demonstrates the sensitivity of the impairment amount at March 31, 2020 from reasonably possible changes in key assumptions inherent in the estimate:

($000)	**Increase in discount rate of 1 percent**	**Decrease in discount rate of 1 percent**	**Decrease in forecasted combined average realized prices of 5 percent**	**Increase in forecasted combined average realized prices of 5 percent**
Impairment increase (decrease)	1,277	(679)	2,514	(2,486)

June 30, 2020

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

7. RIGHT-OF-USE ASSETS

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

($000)	Total
Balance, January 1, 2019	**241**
Additions	-
Depreciation	(42)
Balance, December 31, 2019	**199**
Additions	-
Depreciation	(11)
Impairment	(188)
Balance, June 30, 2020	**-**

During the three months ended March 31, 2020, Altura performed an impairment test on its Leduc-Woodbend CGU which incorporated the above office space, and office equipment ROU assets. Please refer to note 6 for further discussion regarding impairment.

As at June 30, 2020, there were no triggers of reversal of prior impairments.

8. CREDIT FACILITIES

The Corporation has a revolving operating demand loan (the "Operating Loan") with a Canadian bank (the "Lender"). Altura's Operating Loan was reviewed in April 2020, on an interim basis, and the borrowing base was reduced to $7.5 million from the previous $9.0 million borrowing base. The Operating Loan is revolving, payable on demand and contains customary material adverse change clauses. The Operating Loan bored interest equal to the Lender's prime rate plus 1.75 percent per annum on the outstanding principal, payable monthly. The Operating Loan 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 Operating Loan 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 was 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 Operating Loan and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan 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, 2020, the working capital ratio as defined was 2.51:1 (December 31, 2019 – 4.0:1) and the Corporation was compliant with the LLR covenant. In June 2020, Altura's Lender waived the hedging covenant for the quarter ended June 30, 2020 relating to maintaining hedge agreements for the succeeding nine-month period.

As at June 30, 2020, $4.9 million (December 31, 2019 - $nil) was drawn on the Operating Loan and the Corporation had an outstanding letter of credit for $50,000 (December 31, 2019 - $160,000).

Altura's Operating Loan was reviewed in July 2020, on an interim basis, and the maximum borrowing limit was decreased to $6.0 million.

In August 2020, Altura and its lender completed the redetermination of its Operating Loan and the borrowing base was confirmed at $6.0 million. Additionally, Altura secured a $3.0 million term loan from its Lender through the Business Credit Availability Program ("BCAP") Guarantee from the Export Development Bank of Canada ("EDC") (the "Term Loan").

The Term Loan is a non-revolving term facility to be used exclusively to provide additional liquidity to finance Altura's business operations. It can be used to pay operating expenses, G&A expenses, interest on the Operating Loan, lease payments and pay down temporary advances on Altura's Operating Loan. The Term Loan cannot be used to repay or refinance permanent reductions to the Operating Loan or to make shareholder contributions, shareholder loans, share buy backs, or pay any bonuses or increase executive compensation.

On August 27, 2020, the Corporation withdrew the full $3.0 million available on the Term Loan. The Term Loan is payable on demand by Altura's Lender and is non-revolving, therefore amounts repaid cannot be reborrowed.

The Term Loan has a five-year maturity with no less than 50% of amounts outstanding due on August 27, 2024 and the remaining balance due on August 27, 2025.

The interest rate on the Operating Loan and Term Loan (collectively the "Credit Facilities") is the Lender's prime rate plus 4.5 percent per annum. Fees for Letters of Credit issued under the Operating Loan have increased to 3.5 percent (from 2.25 percent) and standby fees on the unused portion of the authorized amount of the Operating Loan have increased to 1.125 percent (from 0.35 percent). Certain Credit Facilities covenants to be observed by the Corporation will be as follows:

- the Corporation is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facilities and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan is added to current assets.
- the Corporation will, at all times, maintain hedging agreements covering no less than 30 percent of Altura's forecasted total production for no less than the succeeding nine-month period, on a rolling basis whereby at least fifty percent of the hedged volumes (on a barrels of oil equivalent basis) must be crude oil hedges (Western Canadian Select);
- the Corporation will maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0 and,
- Altura shall not make any significant capital expenditures between August 27, 2020 to January 31, 2021.

The next review date for the Credit Facilities has been scheduled for May 31, 2021 but may be set at an earlier or later date at the sole discretion of the Lender.

9. LEASE LIABILITIES

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

($000)	As at June 30, 2020
July 2020—December 2020	24
2021—2022	111
2023—2024	119
Total lease payments	254
Impact of discounting	(29)
Lease liabilities	**225**
Payments due within one year	48
Payments due beyond one year	177

The following table reconciles lease liabilities:

($000)	Total
Balance, January 1, 2019	241
Lease interest (non-cash)	9
Lease interest (cash)	5
Total cash outflow	(13)
Balance, December 31, 2019	**242**
Lease interest (cash)	6
Total cash outflow	(23)
Balance, June 30, 2020	**225**

10. 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, 2020 to be approximately $5.6 million (December 31, 2019 – $5.6 million) with the majority of costs anticipated to be incurred between 2030 and 2038. A risk-free Government of Canada long-term bond discount rate of 1.01 percent (December 31, 2019 – 1.76 percent) and an inflation rate of 0.99 percent (December 31, 2019 – 1.35 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, 2020**	Year ended December 31, 2019
Balance, beginning of period	**5,378**	5,771
Additions	**80**	274
Liabilities disposed (note 4)	**(79)**	(470)
Change in estimates(1)	**348**	(301)
Accretion	**31**	104
Balance, end of period	**5,758**	5,378
Expected to be incurred within one year	**15**	15
Expected to be incurred beyond one year	**5,743**	5,363

(1) The change in estimates is due to a change in the discount and inflation rates totaling $342,000 (December 31, 2019 - $237,000 credit) and a change in abandonment and remediation cost estimates and future abandonment dates totaling $6,000 (December 31, 2019 - $64,000 credit).

11. 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)
Balance, December 31, 2018, December 31, 2019 and June 30, 2020	**108,920,974**	**37,712**

(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, 2020 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, 2020 and 2019.

A summary of the Corporation's outstanding stock options at June 30, 2020 is presented below:

	Number of Stock Options	Weighted Average Exercise Price ($)
Balance, December 31, 2018	8,390,000	0.34
Granted	1,380,000	0.42
Balance, December 31, 2019	9,770,000	0.35
Forfeited	(76,667)	0.40
Balance, June 30, 2020	**9,693,333**	**0.35**

The range of exercise prices for stock options outstanding and exercisable under the plan at June 30, 2020 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	0.43	9,693,333	1.8	0.35	7,516,662	1.3	0.34
		9,693,333	**1.8**	**0.35**	**7,516,662**	**1.3**	**0.34**

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, 2020 was $47,000 and $123,000 (June 30, 2019 – $116,000 and $195,000) of which $12,000 and $35,000 was capitalized (June 30, 2019 – $36,000 and $53,000), respectively.

(d) Weighted average common shares:

	Three months ended June 30		Six months ended June 30	
	2020	2019	**2020**	2019
Basic	**108,920,974**	108,920,974	**108,920,974**	108,920,974
Diluted	**108,920,974**	110,503,267	**108,920,974**	110,466,137

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, 2020, 9,693,333 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, 2019 – 4,200,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at June 30, 2020 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price ($)
Balance, December 31, 2018, December 31, 2019, and June 30, 2020	**9,749,879**	**0.449**

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. Performance warrants totaling 9,400,000 expire on July 31, 2020 and the remaining 349,879 expire on August 28, 2020. As at June 30, 2020 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, 2020 was $53,000 and $106,000 (June 30, 2019 – $108,000 and $216,000) of which $8,000 and $20,000 was capitalized (June 30, 2019 – $12,000 and $33,000), respectively. The fair value of the performance warrants is being expensed over the expected life.

12. 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:

	Three months ended June 30		**Six months ended June 30**	
($000)	**2020**	2019	**2020**	2019
Heavy oil	**413**	5,812	**2,421**	12,341
Light & medium oil	**-**	-	**15**	300
Natural gas	**217**	346	**802**	812
Natural gas liquids	**17**	195	**192**	353
Petroleum and natural gas sales	**647**	6,353	**3,430**	13,806

As at June 30, 2020, receivables for revenue were $517,000, which are included in accounts receivable (December 31, 2019 - $1,498,000).

13. 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, 2020, pertain to revenue for accrued June 2020 production volumes and receivables from joint interest partners. Altura primarily transacts with five oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. At June 30, 2020, 51 percent and 14 percent of total outstanding accounts receivable pertains to two marketing companies, and 12 percent pertains to a joint interest partner. 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, 2020. For the six months ended June 30, 2020, the Corporation received approximately 30 percent, 21 percent, 16 percent, 14 percent and 12 percent of its revenue from five marketing companies (June 30, 2019 – 39 percent, 22 percent, 15 percent and nine percent of its revenue from four marketing companies).

At June 30, 2020, the Corporation's trade receivables have been aged as follows:

As at ($000)	**June 30, 2020**	December 31, 2019
Current	**620**	1,674
31 – 60 days	**20**	7
61 – 90 days	**95**	85
> 90 days	**26**	53
Allowance for doubtful accounts	**-**	-
Total	**761**	1,819

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 Operating Loan. 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, 2020, Altura held the following crude oil contracts:

Period	**Commodity**	**Type of Contract**	**Quantity**	**Pricing Point**	**Contract Price**	**Fair Value at June 30, 2020** ($000)
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD $43.75	137
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD $71.35	480
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD ($24.00)	(128)
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD $32.25	(46)
						443

At June 30, 2020, the crude oil contracts were fair valued with an asset of $443,000 (December 31, 2019 - $432,000 liability) recorded on the balance sheet.

Subsequent to June 30, 2020, Altura entered into the following commodity contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD $39.20
Sep 1/20—Oct 31/20	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.380
Nov 1/20—Mar/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.825
Apr 1/21—Jun 30/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD $2.455

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, future liquidity depends on the ability of the Corporation to access debt markets and generate cash flow from operations, which are also impacted by the availability under Altura's Credit Facilities and additional equity. Various industry risk factors, including uncertainty around improvements in global commodity prices and pipeline and transportation capacity constraints in Western Canada, may adversely affect the Corporation's future liquidity as pertains to these operational and financing requirements. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities are due on demand.

14. 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 quarter of 2020 and fourth quarter of 2019 is calculated as follows:

($000)	**Three months ended June 30, 2020**	Three months ended December 31, 2019
Net loss	**(1,247)**	(56)
Adjusted for the following non-cash items		
Deferred tax expense (recovery)	**-**	33
Depletion, depreciation and amortization	**429**	1,899
Impairment	**40**	-
Accretion of decommissioning liability	**13**	24
Share-based compensation	**80**	116
Loss (gain) on disposition of assets	**(605)**	417
Unrealized loss on financial instruments	**1,494**	530
Quarterly adjusted funds flow	**204**	2,963
Annualized adjusted funds flow	**816**	11,852

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 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, 2020 and December 31, 2019 is summarized as follows:

($000)	**June 30, 2020**	December 31, 2019
Current assets	**(1,333)**	(2,110)
Current liabilities	**6,288**	3,168
Working capital deficit	**4,955**	1,058
Fair value of financial instruments	**443**	(432)
Current portion of lease liabilities	**(48)**	(48)
Current portion of decommissioning liability	**(15)**	(15)
Net debt	**5,335**	563

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. As shown below, the Corporation's ratio of net debt to annualized adjusted funds flow increased to 6.54:1 at June 30, 2020. The increase is due to Altura's capital expenditures in the first half of 2020 exceeding adjusted funds flow and adding $4.8 million to net debt from December 31, 2019 while adjusted funds flow decreased in the second quarter of 2020 compared to the fourth quarter of 2019 from lower production volumes and lower oil prices.

	June 30, 2020	December 31, 2019
Net debt ($000)	**5,335**	563
Annualized adjusted funds flow ($000)	**816**	11,852
Net debt to annualized adjusted funds flow (times)	**6.54**	0.05

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 2020.

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30		**Six months ended June 30**	
($000)	**2020**	2019	**2020**	2019
Provided by (used in):				
Accounts receivable	**663**	880	**1,058**	(1,443)
Prepaid expenses and deposits	**50**	(26)	**20**	(28)
Accounts payable and accrued liabilities	**(3,049)**	2,576	**(1,010)**	2,454
	(2,336)	3,430	**68**	983
Provided by (used in):				
Operating activities	**308**	222	**389**	(1,641)
Investing activities	**(2,644)**	3,208	**(321)**	2,624
	(2,336)	3,430	**68**	983

16. COMMITMENT

Altura is committed to drill one horizontal well by December 31, 2020 in the Leduc-Woodbend area pursuant to a freehold petroleum lease agreement. The Corporation is subject to a non-performance penalty of $125,000 if the commitment is not fulfilled.

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.

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

Odyssey Trust Company
Calgary, Alberta

STOCK TRADING

TSX Venture Exchange
Trading Symbol: **ATU**

altura ENERGY INC.