

2016 FOURTH QUARTER REPORT



OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Year ended	
	December 31, 2016	September 30, 2016	December 31, 2015	December 31, 2016	December 31, 2015
OPERATING					
Average daily production					
Light and medium oil (bbls/d)	627	472	313	423	304
Heavy oil (bbls/d)	195	18	7	59	4
Natural gas (mcf/d)	890	473	374	501	287
NGLs (bbls/d)	17	6	6	8	6
Total (boe/d)	988	574	389	574	361
Total boe/d per million shares – basic and diluted	9.1	5.3	3.6	5.3	3.3
Average realized prices					
Light and medium oil (\$/bbl)	51.37	46.04	39.67	44.37	46.46
Heavy oil (\$/bbl)	44.54	37.68	29.86	42.42	36.51
Natural gas (\$/mcf)	3.34	2.53	2.59	2.65	2.84
NGLs (\$/bbl)	44.75	33.53	41.13	39.60	38.13
Total (\$/boe)	45.20	41.41	35.66	39.95	42.32
NETBACK AND COST (\$/boe)					
Petroleum and natural gas sales	45.20	41.41	35.66	39.95	42.32
Royalties	(3.67)	(3.13)	(1.37)	(2.90)	(1.84)
Operating	(8.99)	(7.53)	(9.97)	(9.09)	(11.06)
Transportation	(2.52)	(2.73)	(2.76)	(2.67)	(2.74)
Operating netback ⁽¹⁾	30.02	28.02	21.56	25.29	26.68
General and administrative	(6.03)	(5.49)	(10.61)	(8.16)	(10.55)
Exploration expense	-	(0.70)	-	(0.32)	-
Interest and financing expense	(0.05)	(0.08)	(0.21)	(0.17)	(0.24)
Interest income	0.25	0.78	0.87	0.76	0.41
Corporate netback ⁽¹⁾	24.19	22.53	11.61	17.40	16.30
FINANCIAL (\$000, except per share amounts)					
Petroleum and natural gas sales	4,106	2,189	1,275	8,390	5,583
Funds from operations ⁽¹⁾	2,197	1,193	415	3,656	2,152
Per share – basic and diluted ⁽¹⁾	0.02	0.01	-	0.03	0.03
Cash flow from operating activities	1,683	763	265	2,337	1,207
Per share – basic and diluted	0.02	0.01	-	0.02	0.02
Income (loss)	264	(68)	(417)	(1,249)	(3,809)
Per share – basic and diluted	-	-	-	(0.01)	(0.06)
Capital expenditures, acquisitions and dispositions	6,945	8,049	1,667	17,492	3,184
Working capital surplus	8,455	13,209	22,129	8,455	22,129
Common shares outstanding (000) ⁽²⁾					
End of period – basic	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – basic	108,921	108,921	108,821	108,921	65,619
Weighted average for the period – diluted	108,921	108,921	108,821	108,921	65,619

(1) Funds from operations, funds from operations per share, corporate netback, and operating netback do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts 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. Refer to the Non-GAAP Measures paragraph in the Advisories section of the MD&A.

(2) A share consolidation was effected on October 16, 2015. The number of shares, warrants and options outstanding have been adjusted for the consolidation on a retroactive basis.

PRESIDENT'S MESSAGE

FOURTH QUARTER 2016 HIGHLIGHTS

- Production volumes averaged 988 boe per day, a per share increase of 72 percent from the third quarter of 2016 and 154 percent from the fourth quarter of 2015.
- Drilled and brought on production four gross (3.5 net) wells including an oil well in the Leduc-Woodbend area of Alberta which represents a new Upper Mannville oil pool for the Corporation.
- Increased the Leduc-Woodbend land position through Crown land sales and land acquisitions to 50 sections of 100 percent working interest ("WI") land within the estimated pool boundary.
- Added 6.5 net sections of land through various transactions in a Sparky oil prospect in the Macklin area on the Alberta/Saskatchewan border.
- Operating and transportation costs were \$11.51 per boe, 12 percent higher than the third quarter of 2016 and 10 percent lower than the fourth quarter of 2015.
- Corporate netback of \$24.19 per boe, increased 7 percent from the third quarter of 2016 and 108 percent from the fourth quarter of 2015 predominantly due to increased average sales prices.
- Funds from operations were \$2.2 million, up 84 percent from the third quarter of 2016 and up 429 percent from the fourth quarter of 2015 due primarily to increased production volumes and commodity prices.
- Earnings of \$264,000 compared to a loss of \$68,000 in the third quarter of 2016 and a loss of \$417,000 in the fourth quarter of 2015.
- Capital expenditures totaled \$6.9 million. This included: \$3.9 million on drilling, completing, workovers, equipping and facilities; and \$3.0 million on land, geological and geophysical costs.

2016 HIGHLIGHTS

- Closed a \$4.1 million property acquisition in the Killam area of Alberta on September 14, 2016 (the "Killam Acquisition"). Altura acquired 122 boe per day (55% oil and liquids) of 28° API oil production, 7.3 net sections of land and facility infrastructure including a natural gas pipeline connecting the Killam facilities to a third-party gas plant.
- Production volumes averaged 574 boe per day, a per share increase of 60 percent from 2015 due to seven gross (6.5 net) new oil wells drilled and brought on production in the second half of the year, along with 109 days of production associated with the Killam Acquisition.
- Operating and transportation costs were \$11.76 per boe, 15 percent lower than 2015 due primarily to increased production volumes.
- Corporate netback of \$17.40 per boe, increased 7 percent from 2015 predominantly due to lower operating costs and lower G&A.
- Funds from operations were \$3.7 million, up 70 percent from 2015 due to increased production volumes.
- Capital expenditures, excluding property acquisitions and dispositions, totaled \$13.5 million. This included: \$8.7 million on drilling, completing, workovers, equipping and facilities; \$4.6 million on land, geological and geophysical costs; and \$0.2 million on capitalized G&A.
- Proved developed producing ("PDP") reserves increased by 153 percent from 434 mboe to 1,099 mboe. Total proved ("1P") reserves increased by 151 percent from 725 mboe to 1,821 mboe. Total proved and probable ("2P") reserves increased by 135 percent from 1,362 mboe to 3,195 mboe.

- Finding, development and acquisitions ("FD&A") costs¹ were \$19.99 per boe for PDP, \$17.76 per boe for 1P and \$12.32 per boe for 2P reserves, including the changes in future development costs ("FDC"). This includes \$4.2 million (24% of capital expenditures) to acquire undeveloped land where new reserves have yet to be recognized.
- Recycle ratio² of 1.3 times for PDP, 1.4 times for 1P, and 2.1 times for 2P reserves based on 2016 FD&A costs¹ and Altura's 2016 operating netback of \$25.29 per boe. Using the Q4 2016 operating netback of \$30.02 per boe, the recycle ratio increases to 1.5 times for PDP, 1.7 times for 1P, and 2.4 times for 2P reserves.
- Ended the year with a Liability Management Rating ("LMR") of 5.8 with the Alberta Energy Regulator.
- Ended the year with a \$8.5 million working capital surplus and no debt.

OPERATIONAL REVIEW

Altura achieved fourth quarter production of 988 boe per day, up 414 boe per day (72 percent per share) from the third quarter of 2016 due to incremental production from the Corporation's 2016 drilling program in the third and fourth quarters of 2016 as well as a full quarter of production from the Killam Acquisition.

Altura invested \$6.9 million on capital expenditures in the fourth quarter of 2016 including: \$4.0 million on drilling, completing, workovers, equipping and facilities; and \$2.9 million on land. The Corporation drilled four gross (3.5 net) wells, including one Sparky oil well at Eyehill, two gross (1.5 net) Sparky oil wells at Wildmere and one Dina oil well in the Provost area. Altura incurred \$0.5 million upgrading its multi-well battery at Eyehill area related to the initiation of a waterflood, which is planned to commence water injection in the second quarter of 2017. An additional \$1.5 million is estimated for the first quarter of 2017 to complete the facility upgrade. Land costs in the quarter included \$1.7 million related to Crown land sales and land acquisitions in the Leduc-Woodbend area, and \$1.2 million for 6.5 sections of land in a Sparky oil prospect in the Macklin area on the Alberta/Saskatchewan border.

Since October 2015, the Corporation has accumulated over 50 sections of 100 percent WI land in the Leduc-Woodbend area. The land holdings are comprised of approximately 50 percent freehold and 50 percent Crown leases. Overall, the land position was acquired at an average cost of \$80 per acre.

Land holdings for the Corporation currently total 87,027 gross (77,975 net) acres, with an average working interest of 89 percent.

OPERATIONAL UPDATE

In 2017, Altura has drilled six wells at a 100 percent WI, including: three at Eyehill; one at Leduc-Woodbend; one at Macklin (on the Saskatchewan side); and one at Killam. Altura has continued to achieve industry leading drilling efficiencies at Eyehill with average spud to rig release time under 3.5 days, an improvement of 8 percent compared to the three wells drilled by Altura in 2016. These efficiencies have been applied in the recent drilling of analogous Macklin and Killam Upper Mannville prospects within the Corporation.

Altura expects to execute completions on all six wells by the end of the first quarter with the wells coming on production in April 2017.

Altura has completed its expansion of the Eyehill multi-well battery and is on track to commence water injection in the second quarter of 2017.

¹ "Finding, development and acquisitions costs" or "FD&A costs", "Recycle Ratio" do not have standardized meanings. See "Advisories" contained in the MD&A.

MANAGEMENT UPDATE

Altura is pleased to announce the appointment of Mr. Craig Stayura to the position of Vice President, Land. Mr. Stayura is a Landman with over 10 years of industry experience. Mr. Stayura joined Altura in June 2016 as Land Manager and has proved to be a key member of Altura's management team. Mr. Stayura started his career with ConocoPhillips Canada where he initially worked as a Jr. Landman, and later as an Area Landman in a number of areas within the organization. He then joined Mosaic Energy Ltd. in the position of Negotiating Landman. Mr. Stayura graduated from the University of Calgary with a Bachelor of Commerce Degree in Petroleum Land Management, and is an active member of the Canadian Association of Petroleum Landmen.

OUTLOOK

Capital investment in 2017 is expected to total \$17 million with \$13.3 million to drill, complete, equip and tie-in 11 gross (10.2 net) wells. This will include drilling three wells at Eyehill, two wells at Leduc-Woodbend, three gross (2.2 net) wells at Wildmere, two wells at Killam and one well at Macklin.

The planned 10.2 net well drilling program is forecasted to add approximately 750 boe per day by December 2017, which delivers a risked capital efficiency of approximately \$17,700/boe per day (assuming \$13.3 million of well related capital). The incremental production is expected to offset forecast base declines and grow overall production to exit 2017 at a rate of approximately 1,350 boe per day. Capital spending is expected to be funded from cash on hand, cash flow from operating activities and Altura's existing credit facility, if required.

Altura has accumulated a large oil-weighted drilling inventory with exposure to several different plays and will continue to pursue conventional crude oil plays in the Western Canadian Sedimentary Basin with a focus in central Alberta targeting the shallow, multi-zone, oil-weighted section of the Upper Mannville Group. This area is expected to generate strong cash netbacks with competitive drilling and completion costs for these shallow targets, thereby delivering attractive economics in the context of the current commodity price environment. To diversify and strengthen the long-term profitability of the Corporation, Altura is also evaluating other oil-prone regions that demonstrate these attributes.

Looking ahead, with a working capital surplus of \$8.5 million and no debt at the end of 2016, the Corporation is strategically positioned to:

- Profitably grow corporate production per share and evaluate recently acquired lands by drilling select horizontal wells from its drilling inventory;
- Establish the Corporation in organic play concepts by acquiring strategic parcels of land during a period when land prices are at a 20-year low; and
- Capitalize on strategic acquisition opportunities.

On behalf of our management team and board of directors, we thank our shareholders for their ongoing support and commitment to Altura.

Respectfully,

/s/ David Burghardt
President and Chief Executive Officer

March 22, 2017

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 March 22, 2017 and should be read in conjunction with the Corporation's audited consolidated financial statements (the "financial statements") and related notes for the years ended December 31, 2016 and 2015, as well as the Corporation's Annual Information Form that is filed on SEDAR at www.sedar.com. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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 focused operations in east central Alberta. 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".

SELECTED ANNUAL INFORMATION

(\$000, except per share amounts)	2016	2015	2014
Petroleum and natural gas sales	8,390	5,583	6,389
Funds from operations ⁽¹⁾	3,656	2,152	3,809
Per share – basic and diluted ⁽¹⁾	0.03	0.03	0.11
Cash flow from operating activities	2,337	1,207	3,545
Per share – basic and diluted	0.02	0.02	0.10
Income (loss)	(1,249)	(3,809)	3,576
Per share – basic and diluted	(0.01)	(0.06)	0.10
Capital expenditures, net of divestitures	17,492	3,184	5,888
Total assets	45,915	40,948	19,813
Working capital surplus (deficit)	8,455	22,129	(400)
Common shares outstanding (000) ⁽²⁾			
End of period – basic	108,921	108,921	35,328
Weighted average for the period – basic and diluted	108,921	65,619	34,346

(1) Funds from operations and funds from operations per share do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts 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. Refer to the Non-GAAP Measures paragraph in the Advisories section of the MD&A.

(2) A share consolidation was effected on October 16, 2015. The number of shares, warrants and options outstanding have been adjusted for the consolidation on a retroactive basis.

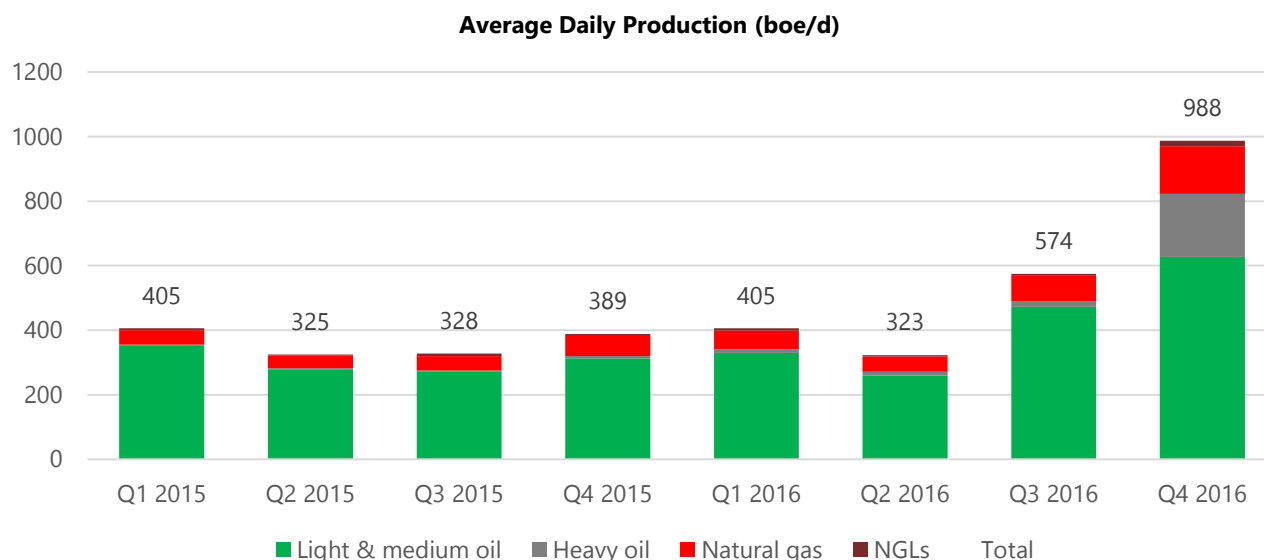
RESULTS OF OPERATIONS

Production

	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Light and medium oil (bbls/d)	627	313	100	423	304	39
Heavy oil (bbls/d)	195	7	>500	59	4	>500
Natural gas (mcf/d)	890	374	138	501	287	75
Natural gas liquids (bbls/d)	17	6	183	8	6	33
Total (boe/d)	988	389	154	574	361	59
Oil and natural gas liquids % of production	85%	84%	1	85%	87%	(2)

Production volumes increased 154 percent to average 988 boe per day in the fourth quarter of 2016, compared to 389 boe per day in the fourth quarter of 2015. Light and medium oil production increased 100 percent to 627 barrels per day from 313 barrels per day in the fourth quarter of 2015. Natural gas production increased 138 percent to 890 mcf per day from 374 mcf per day in the fourth quarter of 2015. The increase in light and medium oil and natural gas production is due to three gross (3.0 net) wells drilled and brought on production in the Eyehill area in the second half of 2016 and an asset acquisition that closed on September 14, 2016, in the Killam area of Alberta (the "Killam Acquisition") that added 122 boe per day in the fourth quarter of 2016. Heavy oil production increased to 195 barrels per day from 7 barrels per day in the fourth quarter of 2015. This increase is due to four gross (3.5 net) wells drilled and brought on production in November and December 2016, including one well in the Leduc-Woodbend area, two gross (1.5 net) wells in the Wildmere area and one well in the Provost area.

The following exhibit shows Altura's quarterly production changes over the past eight quarters.



For the year ended December 31, 2016, production volumes were 574 boe per day compared to 361 boe per day in 2015. The increased production is due to incremental production added from Altura's 2016 drilling program, which included seven gross (6.5 net) wells and production from the Killam Acquisition, partially offset by natural production declines.

Revenue

(\$000)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Light and medium oil	2,965	1,143	159	6,861	5,150	33
Heavy oil	800	19	>500	922	57	>500
Natural gas	273	89	207	486	297	64
Natural gas liquids	68	24	183	121	79	53
Petroleum and natural gas sales	4,106	1,275	222	8,390	5,583	50

Petroleum and natural gas sales for the fourth quarter of 2016 increased 222 percent to \$4,106,000 compared to \$1,275,000 in the fourth quarter of 2015. The quarter-over-quarter increase of \$2,831,000 consists of \$1,826,000 attributed to increased production volumes, and \$1,005,000 attributed to higher realized prices. For the year ended December 31, 2016, petroleum and natural gas sales increased 50 percent compared to 2015. The year-over-year increase of \$2,807,000 consists of \$3,033,000 attributed to increased production volumes, partially offset by \$226,000 attributed to lower realized commodity prices.

Altura sells all of its crude oil 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 a number of 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 benchmark trading exchanges that Altura compares its oil price to are the West Texas Intermediate ("WTI") oil spot price and the Western Canadian Select ("WCS") spot price. The differential between the WTI spot price and WCS spot price can widen due to a number of factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

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

(\$)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Average Benchmark Prices						
WTI crude oil (US\$/bbl) ⁽¹⁾	49.29	42.18	17	43.32	48.80	(11)
WCS differential (US\$/bbl) ⁽²⁾	(14.32)	(14.57)	(2)	(13.97)	(13.74)	2
US\$/Cdn\$ exchange rate	0.750	0.749	-	0.755	0.782	(3)
WCS (Cdn\$/bbl)	46.63	36.86	27	38.88	44.83	(13)
AECO daily spot (\$/mmbtu) ⁽³⁾	3.09	2.46	26	2.16	2.69	(20)
Average Realized Prices						
Light and medium oil (\$/bbl)	51.37	39.67	29	44.37	46.46	(4)
Heavy oil (\$/bbl)	44.54	29.86	49	42.42	36.51	16
Natural gas (\$/mcf)	3.34	2.59	29	2.65	2.84	(7)
Natural gas liquids (\$/bbl)	44.75	41.13	9	39.60	38.13	4
Average realized price (\$/boe)	45.20	35.66	27	39.95	42.32	(6)
Oil Price Differentials						
Light and medium oil differential to WCS (\$/bbl)	4.74	2.81	69	5.49	1.63	237
Heavy oil differential to WCS (\$/bbl)	(2.09)	(7.00)	(70)	3.54	(8.32)	(143)

(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.

(3) \$1.00/mmbtu = \$1.00/mcf based on a standard heat value per mcf.

In the fourth quarter of 2016, WCS increased 27 percent to \$46.63 per barrel from \$36.86 per barrel in the fourth quarter of 2015. Altura's realized light and medium oil price increased 29 percent over the same time period, averaging \$51.37 per barrel, and its realized heavy oil price increased 49 percent over the same time period, averaging \$44.54 per barrel. The

incremental increases in realized crude oil prices over WCS reflects an increase in average oil quality from new production brought on-stream in 2016 compared to the average oil quality in the fourth quarter of 2015.

Altura's realized natural gas price increased by 29 percent during the fourth quarter of 2016 compared to the fourth quarter of 2015, while Altura's realized natural gas price decreased by seven percent for the year ended December 31, 2016, compared to 2015. Altura's price increase in the fourth quarter of 2016 from the comparable prior period is consistent with the increase in the AECO daily spot price over the same period. The Corporation's realized natural gas price decrease in 2016 was less than the decrease in the AECO daily spot price over the same period due to natural gas production in the fourth quarter of 2016 accounting for 45 percent of the Corporation's annual gas production, which sold at higher prices than the first three quarters of 2016.

Royalties

(\$000, except % and per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Crown royalties	233	43	442	484	212	128
Freehold and overriding royalties	101	6	>500	125	30	317
Royalty expense	334	49	>500	609	242	152
Royalty expense as a % of sales	8.1%	3.9%	108	7.3%	4.3%	70
Royalty expense per boe	3.67	1.37	168	2.90	1.84	58

The Corporation's royalties are owed to the provincial government of Alberta and mineral rights owners and are either paid or taken in kind. The terms of the provincial government royalty regime and mineral rights owner agreements impact the Corporation's overall corporate royalty rate.

In the three months and year ended December 31, 2016, royalties as a percentage of sales increased 108 percent and 70 percent from the comparative prior periods, due to increases in both Crown and freehold royalties. Crown royalties are based on a sliding scale with sensitivity to price, total volume produced and royalty incentives for new wells drilled on Crown lands. Crown royalties increased because of a 2016 expiration of the Alberta New Well Royalty Rate incentive on three wells that were drilled in 2014. The increase in freehold royalties reflect one well drilled on freehold mineral lands in the Leduc-Woodbend area that was brought on-stream in the fourth quarter of 2016, coupled with an increase in freehold royalties associated with the Killam Acquisition.

In 2016, the provincial government of Alberta announced the key highlights of the Modernized Royalty Framework ("MRF") that was effective on January 1, 2017. These highlights include the replacement of royalty credits and holidays on conventional wells through a Drilling and Completion Cost Allowance to emulate a revenue minus cost framework, a post-payout royalty rate based on commodity prices, and the reduction of royalty rates for mature wells, with the intent of delivering a neutral internal rate of return for any given play compared to the current royalty framework. No changes will be made to the royalty structure of wells drilled prior to January 2017 for a 10-year period from the royalty program's implementation date. Details of the MRF calibration formulas have been released and more specific information can be found on the Alberta government's website.

For Altura, the economics of drilling in its Upper Mannville oil plays, within expected price ranges, are comparable with the previous Alberta Royalty Framework.

Operating and Transportation Costs

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Operating	816	356	129	1,908	1,459	31
Transportation	228	99	130	561	361	55
Operating and transportation	1,044	455	129	2,469	1,820	36
Operating per boe	8.99	9.97	(10)	9.09	11.06	(18)
Transportation per boe	2.52	2.76	(9)	2.67	2.74	(3)
Operating and transportation per boe	11.51	12.73	(10)	11.76	13.80	(15)

Operating and transportation costs increased to \$1,044,000 and \$2,469,000 for the three months and year ended December 31, 2016, compared to \$455,000 and \$1,820,000 for the same periods in 2015, respectively. This increase is due to Altura's increase in production volumes.

On a per boe basis, operating and transportation costs were \$11.51 and \$11.76, for the three months and year ended December 31, 2016. The decreases of 10 percent and 15 percent when compared with the same periods in 2015 were primarily a result of cost benefits of producing incremental production volumes from new wells with lower average operating costs.

General and Administrative ("G&A") Expenses

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Gross G&A	661	445	49	2,030	1,571	29
Capitalized G&A and overhead recoveries	(113)	(65)	74	(317)	(179)	77
Net G&A expenses	548	380	44	1,713	1,392	23
Net G&A per boe	6.03	10.61	(43)	8.16	10.55	(23)

Net G&A expenses totaled \$548,000 and \$1,713,000 for the three months and year ended December 31, 2016, compared to \$380,000 and \$1,392,000 for the same periods in 2015, respectively. The increase is primarily due to a management bonus included in the fourth quarter of 2016, while no bonus was accrued in 2015. Net G&A expenses decreased 43 percent and 23 percent to \$6.03 per boe and \$8.16 per boe for the three months and year ended December 31, 2016, primarily attributed to higher production volumes.

Altura's policy is to capitalize costs that are directly attributable to the construction of property and equipment or exploration and evaluation assets. The increase in capitalized G&A and overhead recoveries in the three months and year ended December 31, 2016 is a result of increased capital spending compared to the same periods in 2015.

Exploration Expense

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Exploration expense	-	-	-	67	-	-
Exploration expense per boe	-	-	-	0.32	-	-

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in 2016 relate to seismic acquisition and processing costs incurred by the Corporation to evaluate potential Crown land sales.

Interest and Financing Expenses

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Interest and financing expenses	5	7	(29)	36	31	16
Interest and financing expenses per boe	0.05	0.21	(76)	0.17	0.24	(29)

Interest and financing expenses in the three months and year ended December 31, 2016, relate to standby charges associated with the Corporation's credit facility.

Interest Income

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Interest income	22	31	(29)	160	54	196
Interest income per boe	0.25	0.87	(71)	0.76	0.41	85

Interest income increased 196 percent in 2016 to \$160,000 from \$54,000 earned in 2015. The increase reflects an increased interest rate and a full year of cash invested in an interest-bearing account compared to 2015 having five months of cash invested after the July 31, 2015, private placement.

Netbacks

(\$/boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Petroleum and natural gas sales	45.20	35.66	27	39.95	42.32	(6)
Royalties	(3.67)	(1.37)	168	(2.90)	(1.84)	58
Operating	(8.99)	(9.97)	(10)	(9.09)	(11.06)	(18)
Transportation	(2.52)	(2.76)	(9)	(2.67)	(2.74)	(3)
Operating netback	30.02	21.56	39	25.29	26.68	(5)
General and administrative	(6.03)	(10.61)	(43)	(8.16)	(10.55)	(23)
Exploration expense	-	-	-	(0.32)	-	-
Interest and financing expenses	(0.05)	(0.21)	(76)	(0.17)	(0.24)	(29)
Interest income	0.25	0.87	(71)	0.76	0.41	85
Corporate netback	24.19	11.61	108	17.40	16.30	7

Altura's corporate netback was \$24.19 per boe in the fourth quarter of 2016 compared to \$11.61 per boe in the same period of 2015. The increase is mainly a result of increased realized prices, decreased G&A and lower operating costs, partially offset by increased royalty expenses and decreased interest income. For the year ended December 31, 2016, Altura's corporate netback was \$17.40 per boe compared to \$16.30 per boe in 2015. The increase is primarily a result of decreased operating costs and G&A and increased interest income, partially offset by the decline in commodity prices and increased royalties and exploration expenses.

Share-Based Compensation

(\$000)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Share-based compensation	286	218	31	1,110	746	49
Capitalized share-based compensation	(68)	(14)	386	(170)	(57)	198
Share-based compensation expense	218	204	7	940	689	36

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation uses the fair-value method for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. During the fourth quarter of 2016, 1,770,000 stock options were granted to employees, officers and directors at an average price of \$0.27, compared to 3,950,000 stock options granted at an average price of \$0.3375 in the fourth quarter of 2015.

For the year ended December 31, 2016, share-based compensation expense includes \$572,000 related to performance warrants and \$368,000 related to stock-options. In 2015, share-based compensation expense includes \$278,000 related to performance warrants, \$102,000 related to stock-options, and \$309,000 related to the cancellation of stock-options in accordance with the July 31, 2015, reorganization. The year-over-year increase in performance warrants reflects a full year of expenses in 2016, compared to five months of expenses in 2015.

Transaction Costs

(\$000)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Transaction costs	-	-	-	12	1,073	(99)

Transaction costs incurred in 2016 relate to legal fees and environmental consulting associated with the Killam Acquisition. In 2015, transaction costs included severance, legal costs and advisory fees associated with the July 31, 2015 reorganization.

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

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
DD&A	1,695	979	73	4,098	2,387	72
DD&A per boe	18.65	27.40	(32)	19.51	18.10	8

Altura uses proved and probable reserves to calculate DD&A expense. For the three months and year ended December 31, 2016, DD&A increased 73 percent and 72 percent to \$1.7 million and \$4.1 million from the same periods in 2015 due to increased production volumes.

DD&A decreased to \$18.65 per boe in the fourth quarter of 2016 from \$27.40 per boe in the fourth quarter of 2015 reflecting an increase in the Corporation's proved and probable reserves at a lower finding and development cost than the aggregate amount in the fourth quarter of 2015. In 2016, DD&A expense increased eight percent to \$19.51 per boe compared to \$18.10 in 2015.

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 costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment. At December 31, 2016, Altura evaluated its developed and producing ("D&P") assets and exploration and evaluation ("E&E") assets on a cash generating unit ("CGU") basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on Altura's D&P assets and E&E assets for the year ended December 31, 2016.

In 2015, Altura recorded impairment charges to its D&P assets of \$1.6 million and its E&E assets of \$0.7 million.

Investment

In 2016, the Corporation sold its investment of common shares in the share capital of a publicly traded company for \$358,000 net of transaction costs. The Corporation recorded a gain on sale of \$120,000 for the year ended December 31, 2016 (December 31, 2015 – loss on fair value redetermination of \$95,000).

Gain on Sale of Assets

In 2016, the Corporation divested minor non-producing properties for aggregate proceeds of \$125,000. Altura recorded a gain of \$70,000 on the dispositions for the year ended December 31, 2016 (December 31, 2015 – nil).

Deferred Taxes

The Corporation had no deferred income tax expense or recovery in the three months and year ended December 31, 2016, compared to recoveries of \$221,000 and \$336,000 for the respective periods in 2015. As at December 31, 2016 and 2015, the Corporation had an unrecognized deferred tax asset.

Estimated tax pools at December 31, 2016 are as follows:

	(\$000)
Canadian development expenses	7,373
Canadian exploration expenses	2,783
Canadian oil and gas property expenses	7,232
Non-capital losses	7,331
Capital losses	117
Undepreciated capital cost	5,292
Cumulative eligible expenditures	499
Share issue costs	185
	30,812

Non-capital losses expire between 2028 and 2035.

Cash Flow from Operating Activities and Funds from Operations

Management uses funds from operations to analyze operating performance. Funds from operations and funds from operations per share are non-GAAP measures defined by the Corporation as cash flow from operating activities from the statements of cash flows before decommissioning expenditures, if any, transaction costs and changes in non-cash operating working capital. Funds from operations should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined in accordance with GAAP, as an indicator of Altura's performance or liquidity. Funds from operations per share is calculated based on the weighted average number of basic and diluted common shares outstanding. Altura's calculation of funds from operations is considered to be a key measure of the ability to generate the cash necessary to fund capital expenditures and repay indebtedness. The following schedule sets out the reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to funds from operations for the reporting periods and the comparable prior periods:

(\$000, except per share amounts)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Cash flow from operating activities	1,683	265	>500	2,337	1,207	94
Transaction costs	-	-	-	12	1,073	(99)
Decommissioning liabilities settled	6	10	(40)	9	10	(10)
Changes in non-cash operating working capital	508	140	263	1,298	(138)	(>500)
Funds from operations	2,197	415	429	3,656	2,152	70
Per share – basic	0.02	-	-	0.03	0.03	-
Per share – diluted	0.02	-	-	0.03	0.03	-

Cash flow from operating activities increased to \$1,683,000 and \$2,337,000 for the three months and year ended December 31, 2016, compared to \$265,000 and \$1,207,000 in the same periods of 2015. The increases are mainly due to increased revenue from increased production volumes and increased interest income, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, higher G&A and exploration expenses and increases in non-cash working capital. Non-cash working capital increased by \$508,000 and \$1,298,000 for the three months and year ended December 31, 2016, mainly due to the increase in accounts receivable as at December 31, 2016, due to higher December 2016 revenue that was collected in January 2017.

Details of the change in funds from operations and corporate netback per boe from the three months and year ended December 31, 2015, to the three months and year ended December 31, 2016, are as follows:

	Three months ended December 31		Year ended December 31	
	\$000	\$/boe	\$000	\$/boe
Funds from operations - 2015	415	11.61	2,152	16.30
Volume variance	1,826	-	3,033	-
Price variance	1,005	9.54	(226)	(2.37)
Interest and other income	(9)	(0.62)	106	0.35
Royalties	(285)	(2.30)	(367)	(1.06)
Expenses:				
Operating	(460)	0.98	(449)	1.97
Transportation	(129)	0.24	(200)	0.07
General and administrative	(168)	4.58	(321)	2.39
Exploration expense	-	-	(67)	(0.32)
Interest and financing	2	0.16	(5)	0.07
Funds from operations - 2016	2,197	24.19	3,656	17.40

Funds from operations increased by 429 percent in the fourth quarter of 2016 to \$2,197,000 from \$415,000 generated in the fourth quarter of 2015. The increase reflects higher revenue due to increased production volumes and higher commodity prices, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and increased G&A and exploration expenses.

For the year ended December 31, 2016, funds from operations increased by \$1,504,000 to \$3,656,000 from \$2,152,000 in 2015. This increase is mainly due to increased revenue from increased production volumes and increased interest income, partially offset by decreased commodity prices as well as higher royalties, operating and transportation costs associated with increased production volumes, and higher G&A and exploration expenses.

Income (loss)

(\$000, except per share amounts)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Income (loss)	264	(417)	(164)	(1,249)	(3,809)	(67)
Per share – basic	-	-	-	(0.01)	(0.06)	(83)
Per share – diluted	-	-	-	(0.01)	(0.06)	(83)

For the three months ended December 31, 2016, Altura generated income of \$264,000 compared to a loss of \$417,000 in the fourth quarter of 2015. The increased income of \$681,000 is primarily attributed to increased revenue, partially offset by increased operating, transportation, G&A, and DD&A associated with the Corporation's production growth.

For the year ended December 31, 2016, Altura incurred a loss of \$1,249,000 compared to a loss of \$3,809,000 in 2015. The reduced loss of \$2,560,000 is primarily attributed to increased revenue, lower transaction costs, and no impairment, partially offset by increased operating, transportation, G&A, and DD&A associated with the Corporation's production growth.

Capital Expenditures

(\$000)	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Geological and geophysical	46	19	142	265	33	>500
Land	2,907	363	>500	4,297	1,224	251
Drilling and completions	2,234	989	126	5,977	1,171	410
Workovers	381	-	-	565	-	-
Equipping and facilities	1,327	249	433	2,172	339	>500
Other	50	53	(6)	248	186	33
	6,945	1,673	315	13,524	2,953	358
Property acquisitions	-	(6)	(100)	4,093	251	>500
Property dispositions	-	-	-	(125)	(20)	>500
Total capital expenditures, acquisitions and dispositions	6,945	1,667	317	17,492	3,184	449

In the fourth quarter of 2016, Altura invested a total of \$6.9 million on capital expenditures including: \$3.9 million on drilling, completing, workovers, equipping and facilities; and \$2.9 million on land. Altura drilled four gross (3.5 net) wells in the fourth quarter, including one Sparky oil well in Eyehill, two gross (1.5 net) Sparky oil wells in Wildmere and one Dina oil well in the Provost area. Altura incurred \$0.5 million upgrading its multi-well battery in the Eyehill area related to the initiation of a waterflood, which is planned to commence water injection in April 2017. An additional estimated amount of \$1.5 million is budgeted for the facility upgrade in the first quarter of 2017. Land costs in the fourth quarter of 2016 include \$1.7 million related to Crown land sales and land acquisitions in the Leduc-Woodbend area of Alberta, and \$1.2 million for land acquisitions in the Macklin area on the Alberta/Saskatchewan border.

For the year ended December 31, 2016, Altura invested a total of \$17.5 million on capital expenditures including: \$8.7 million on drilling, completing, workovers, equipping and facilities; \$4.6 million on land, geological and geophysical costs; and \$4.1 million on the Killam Acquisition. In 2016, the Corporation drilled, completed and equipped seven gross (6.5 net) horizontal wells. Of these seven wells, four are Sparky oil wells in the Eyehill area, one is an Upper Mannville oil well in the Leduc-Woodbend area, two gross (1.5 net) are Sparky oil wells in the Wildmere area and one is a Dina oil well in the Provost area. The Killam Acquisition closed on September 14, 2016, and consisted of 122 boe per day of low decline production, 7.3 net sections of land, and included facility infrastructure and a natural gas pipeline connecting the Killam facilities to a third-party gas plant.

Decommissioning Liability

At December 31, 2016, Altura recorded a decommissioning liability of \$6.2 million (December 31, 2015 - \$2.6 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes assumptions in respect of actual costs 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 discounted at the risk-free rate of 2.3 percent (December 31, 2015 - 1.4 percent). Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The increase in liability is due to wells acquired in the Killam Acquisition and new wells drilled, partially offset by a reduction in cost estimates and an increase in the risk-free interest rate in the year ended December 31, 2016.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the year ended December 31, 2016, accretion expense totaled \$45,000 (December 31, 2015 - \$32,000).

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 5.8 at December 31, 2016. The LMR reflects the results of a comparison 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.

CAPITAL RESOURCES AND LIQUIDITY

Working Capital

The Corporation had a working capital surplus of \$8.5 million at December 31, 2016, compared to \$22.1 million at December 31, 2015. At December 31, 2016, the major components of Altura's current assets were cash and cash equivalents (79 percent), and revenue (15 percent) to be received from its oil and gas marketers in respect to December 2016 production. Altura routinely assesses the financial strength of its marketers and joint interest partners, and has determined all past due accounts receivable to be collectable. Current liabilities largely consist of trade and joint interest payables (53 percent) and accrued liabilities (47 percent) related to the Corporation's operations. The Corporation manages its working capital using a combination of its funds from operations and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash in a short-term interest bearing account with its lender.

Credit Facility

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian chartered bank (the "Lender") with a maximum borrowing limit of \$4.0 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Corporation is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility may be added to current assets. At December 31, 2016, the working capital ratio under the terms of the Credit Facility was calculated to be 5.9:1 (December 31, 2015 - 29.7:1). The next review date for the Credit Facility has been set for May 31, 2017.

Shareholders' Equity

At December 31, 2016, there were 108,920,973 common shares outstanding, 9,749,875 performance warrants outstanding and 5,570,000 stock options outstanding. The number of shares outstanding remains unchanged from December 31, 2015.

At March 22, 2017, the number of common shares, performance warrants and stock options outstanding remain unchanged from December 31, 2016.

Liquidity

At December 31, 2016, Altura had a working capital surplus of \$8.5 million, no debt and \$4.0 million available on its Credit Facility. Altura expects to have adequate liquidity to fund its 2017 capital expenditure forecast of \$17 million through a combination of available cash on hand, funds from operations and the \$4.0 million Credit Facility, if required. Altura's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserves evaluator.

If Altura undertakes any major acquisitions, management would expect to finance the transactions with a combination of cash on hand, equity and debt in a cost-effective manner. Altura continues to be very active evaluating acquisitions that meet its investment criteria.

Contractual Obligations and Commitments

In October 2016, the Corporation entered into an agreement whereby Altura acquired freehold petroleum leases in the Leduc-Woodbend area of Alberta. Pursuant to the agreement, Altura agreed to drill one horizontal commitment well by December 31, 2017 subject to a non-performance penalty of \$500,000 if the commitment was not fulfilled. Altura fulfilled the commitment in January 2017.

SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
OPERATING								
Average daily production								
Light and medium oil (bbls/d)	627	472	259	330	313	271	279	351
Heavy oil	195	18	12	11	7	4	3	4
Natural gas (mcf/d)	890	473	289	348	374	267	238	268
NGLs (bbls/d)	17	6	4	7	6	8	3	6
Total (boe/d)	988	574	323	405	389	328	325	405
Average realized sales price								
Light and medium oil (\$/bbl)	51.37	46.04	44.60	28.30	39.67	45.58	58.35	43.79
Heavy oil (\$/bbl)	44.54	37.68	35.43	20.57	29.86	37.40	48.11	38.85
Natural gas (\$/mcf)	3.34	2.53	1.53	1.96	2.59	3.05	2.83	2.99
NGLs (\$/bbl)	44.75	33.53	52.30	24.26	41.13	17.16	86.22	40.14
Total (\$/boe)	45.20	41.41	39.08	25.65	35.66	41.12	53.44	40.84
OPERATING NETBACK (\$ per boe) ⁽¹⁾								
Petroleum and natural gas sales	45.20	41.41	39.08	25.65	35.66	41.12	53.44	40.84
Royalty expenses	(3.67)	(3.13)	(2.06)	(1.33)	(1.37)	(1.93)	(2.22)	(1.90)
Operating costs	(8.99)	(7.53)	(11.45)	(9.67)	(9.97)	(12.72)	(12.92)	(9.26)
Transportation costs	(2.52)	(2.73)	(2.88)	(2.81)	(2.76)	(2.47)	(3.14)	(2.61)
Operating netback ⁽¹⁾	30.02	28.02	22.69	11.84	21.56	24.00	35.16	27.07
FINANCIAL (\$000, except per share)								
Petroleum and natural gas sales	4,106	2,189	1,149	946	1,275	1,239	1,580	1,489
Funds from operations ⁽¹⁾	2,197	1,193	149	117	415	209	790	738
Per share – basic and diluted ⁽¹⁾	0.02	0.01	-	-	-	-	0.02	0.02
Cash flow from (used in) operating activities	1,683	763	28	(137)	265	(451)	715	666
Per share – basic and diluted	0.02	0.01	-	-	-	(0.01)	0.02	0.02
Income (loss)	264	(68)	(692)	(753)	(417)	(3,955)	203	361
Per share – basic and diluted	-	-	(0.01)	(0.01)	-	(0.05)	0.01	0.01
(\$000)								
Capital expenditures, net	6,945	8,049	2,294	204	1,667	160	969	388
Total assets	45,915	44,704	41,431	40,048	40,948	40,811	20,549	19,491
Working capital surplus (deficit)	8,455	13,209	20,011	22,199	22,129	23,151	(515)	(208)
Shareholders' equity	37,184	36,632	36,410	36,870	37,326	37,205	16,250	16,192
Common shares outstanding (000)								
Weighted average for the period - basic	108,921	108,921	108,921	108,921	108,821	82,301	35,074	35,289
Weighted average for the period - diluted	108,921	108,921	108,921	108,921	108,821	82,301	35,074	35,289
Shares outstanding, end of period	108,921	108,921	108,921	108,921	108,921	107,901	34,703	35,168

1. Funds from operations, funds from operations per share, and operating netback do not have standardized meanings prescribed by GAAP and therefore should not be considered in isolation. These reported amounts 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. Refer to the Non-GAAP Measures at the end of this MD&A.

Quarter over quarter fluctuations in revenue are the result of both the amount of oil and gas volumes sold as well as Altura's realized price. Crude oil and natural gas prices increased over the second, third and fourth quarters of 2016 contributing to increased petroleum and natural gas sales in the quarters.

Capital expenditures were lower in 2015 due to declining commodity prices from 2014, which contributed to declining production in the second and third quarters of 2015. One well was drilled in the fourth quarter of 2015 resulting in an increase in production volumes in the fourth quarter of 2015 and the first quarter of 2016. Capital expenditures in 2016 included seven gross (6.5 net) wells, and a property acquisition, which resulted in an increase in production volumes in the third and fourth quarters of 2016.

The Corporation recorded an impairment charge of \$2.35 million in the third quarter of 2015 related to declines in forward commodity prices for crude oil and natural gas and a reduction in proved plus probable reserves. This resulted in the loss in

the third quarter of 2015. Altura recorded income in the fourth quarter of 2016 due to increased petroleum and natural gas sales and lower relative cash and non-cash costs.

The increase in working capital surplus, total assets, shareholders' equity, and weighted average shares outstanding in the third quarter of 2015 is due to the equity financing associated with the July 2015 reorganization and investment agreement.

OFF BALANCE SHEET ARRANGEMENTS

Altura was not involved in any off-balance sheet arrangements that would result in a material change to its financial position, performance or funds from operations during the reporting periods.

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

The Corporation has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

RISK FACTORS & RISK MANAGEMENT

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

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation,

maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

CHANGES IN ACCOUNTING POLICIES

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Corporation on January 1, 2018. Altura is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments". The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. As the Corporation does not currently apply hedge accounting it anticipates that this standard will not have a material impact on Altura's financial statements.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Altura on January 1, 2019 and the Corporation is currently evaluating the impact of the standard on Altura's financial statements.

ADVISORIES

Non-GAAP Measures

This MD&A and fourth quarter report contains references to measures used in the oil and natural gas industry such as "funds from operations", "corporate netback", "funds from operations per share", and "operating netback". These measures do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts 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. These measures have been described and presented in the MD&A and fourth quarter report in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations.

Funds from operations should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or income (loss) as determined in accordance with GAAP, as an indicator of Altura's performance or liquidity. Funds from operations is used by Altura to evaluate operating results and the Corporation's ability to generate cash flow to fund capital expenditures and repay indebtedness. Funds from operations denotes cash flow from operating activities as it appears on the Corporation's statement of cash flows before decommissioning expenditures, if any, transaction costs and changes in non-cash operating working capital. Funds from operations is also derived from income (loss) plus non-cash items including deferred income tax expense, depletion, depreciation and amortization expense, impairment, share-based compensation expense, gain on investments, gain on dispositions of assets, flow-through share renunciation and accretion expense. Funds from operations per share is calculated as funds from operations divided by the weighted average number of basic and diluted common shares outstanding. Operating netback denotes total sales less royalty expenses, operating costs and transportation costs calculated on a per boe basis. Corporate netback denotes

operating netback less general and administrative, interest and financing expense and exploration expense plus interest income on a per boe basis.

Oil and Gas Advisories

Reserves

All reserve references in this MD&A and fourth quarter report are "company share reserves". Company share reserves are the Corporation's total working interest reserves before the deduction of any royalties and including any royalty interests of the Corporation.

It should not be assumed that the present value of estimated future net revenue presented in the tables above represents the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of Altura's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

All future net revenues are estimated using forecast prices, arising from the anticipated development and production of our reserves, net of the associated royalties, operating costs, development costs, and abandonment and reclamation costs and are stated prior to provision for interest and general and administrative expenses. Future net revenues have been presented on a before tax basis. Estimated values of future net revenue disclosed herein do not represent fair market value.

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.

Oil and Gas Metrics

This MD&A and fourth quarter report contain metrics commonly used in the oil and natural gas industry. Each of these metrics is determined by Altura as set out below. These metrics are "finding, development and acquisition costs", and "recycle ratio". These metrics do not have standardized meanings and may not be comparable to similar measures presented by other companies. As such, they should not be used to make comparisons. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders with measures to compare Altura's performance over time, however, such measures are not reliable indicators of Altura's future performance and future performance may not compare to the performance in previous periods.

- "Finding, development and acquisition costs" or "FD&A costs" are calculated by dividing the sum of the total capital expenditures for the year inclusive of the net acquisition costs and disposition proceeds (in dollars) by the change in reserves within the applicable reserves category inclusive of changes due to acquisitions and dispositions (in boe). FD&A costs includes all capital expenditures in the year inclusive of the net acquisition costs and disposition proceeds as well as the change in future development costs required to bring the reserves within the specified reserves category on production.

FD&A costs take into account reserves revisions and capital revisions during the year. The aggregate of the costs incurred in the financial year and changes during that year in estimated FDC may not reflect total F&D costs related to reserves additions for that year. FD&A costs have been presented in this MD&A and fourth quarter report because acquisitions and dispositions can have a significant impact on Altura's ongoing reserves replacement costs and excluding these amounts could result in an inaccurate portrayal of its cost structure. Management uses FD&A as measures of its ability to execute its capital programs (and success in doing so) and of its asset quality.

- "Recycle ratio" or is calculated by dividing the operating netback (in dollars per boe) by the FD&A costs (in dollars per boe) for the year. Altura uses recycle ratio as an indicator of profitability of its oil and gas activities.

Forward-looking Information

This MD&A and fourth 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 fourth quarter report contains forward-looking information and statements pertaining to the 2017 capital expenditure budget. Statements relating to "reserves" are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

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

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

Altura believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for 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 fourth quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation:

- changes in commodity prices;
- changes in the demand for or supply of Altura's products;
- unanticipated operating results or production declines;
- changes in tax or environmental laws, royalty rates or other regulatory matters;
- changes in development plans 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 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 fourth quarter report speak only as of the date of this MD&A and fourth 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.

MANAGEMENT'S REPORT

To the Shareholders of Altura Energy Inc.

Management's Responsibility on Financial Statements

The annual consolidated financial statements of Altura Energy Inc. as at and for the years ended December 31, 2016 and December 31, 2015 were prepared by management within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for the integrity of the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management. Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Public Accountants appointed by shareholders, have conducted an examination of the corporate and accounting records to express their audit opinion on the consolidated financial statements. The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

/s/ David Burghardt
President and Chief Executive Officer

/s/ Tavis Carlson
Vice-President, Finance and Chief Financial Officer

March 22, 2017
Calgary, Alberta

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altura Energy Inc.

We have audited the accompanying consolidated financial statements of Altura Energy Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Altura Energy Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ "KPMG LLP"

Chartered Professional Accountants

March 22, 2017

Calgary, Canada

CONSOLIDATED BALANCE SHEETS

As at

(\$000)	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	8,659	22,389
Accounts receivable (note 14)	2,276	468
Prepaid expenses and deposits	72	30
Investment (note 9)	-	238
	11,007	23,125
Exploration and evaluation (note 7)	7,865	1,768
Property and equipment (note 8)	27,043	16,055
Total assets	45,915	40,948
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,552	996
Decommissioning liability (note 11)	6,181	2,626
Total liabilities	8,733	3,622
SHAREHOLDERS' EQUITY		
Share capital (note 12)	37,712	37,712
Performance warrants (note 12e)	938	289
Contributed surplus	3,087	2,631
Deficit	(4,555)	(3,306)
Total shareholders' equity	37,182	37,326
Commitment (note 18)		
Total liabilities and shareholders' equity	45,915	40,948

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Robert Maitland
Director

/s/ John McAleer
Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(\$000, except per share amounts)	2016	2015
REVENUE		
Petroleum and natural gas sales	8,390	5,583
Royalties	(609)	(242)
Interest income	160	54
	7,941	5,395
EXPENSES AND OTHER ITEMS		
Operating	1,908	1,459
Transportation	561	361
General and administrative	1,713	1,392
Transaction costs	12	1,073
Exploration expense	67	-
Share-based compensation (note 12)	940	689
Interest and financing charges	36	31
Depletion, depreciation and amortization (notes 7 and 8)	4,098	2,387
Accretion of decommissioning liability (note 11)	45	32
Impairment (notes 7 and 8)	-	2,351
	9,380	9,775
OTHER INCOME (EXPENSES)		
Flow-through share renunciation	-	330
Gain (loss) on investment (note 9)	120	(95)
Gain on disposition of assets (note 8)	70	-
	190	235
Loss before taxes	(1,249)	(4,145)
Deferred tax recovery (note 13)	-	(336)
Loss and comprehensive loss	(1,249)	(3,809)
Loss per share, basic and diluted (note 12d)	(0.01)	(0.06)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$000)	Share capital	Warrants	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2014	13,046	1,295	-	967	559	15,867
Issued on recapitalization (note 12b)	24,620	-	-	-	-	24,620
Issued on rights offering (note 12b)	344	-	-	-	-	344
Share issue costs (note 12b)	(256)	-	-	-	-	(256)
Exercise of stock options (note 12c)	188	-	-	(63)	-	125
Repurchase of common shares (note 12b)	(230)	-	-	-	(56)	(286)
Repurchase of warrants	-	(25)	-	-	-	(25)
Expiry of warrants	-	(1,270)	-	1,270	-	-
Share-based compensation expense (note 12)	-	-	278	411	-	689
Share-based compensation capitalized (note 12)	-	-	11	46	-	57
Loss for the year	-	-	-	-	(3,809)	(3,809)
Balance, December 31, 2015	37,712	-	289	2,631	(3,306)	37,326
Repurchase of performance warrants (note 12e)	-	-	(5)	-	-	(5)
Share-based compensation expense (note 12)	-	-	572	368	-	940
Share-based compensation capitalized (note 12)	-	-	82	88	-	170
Loss for the year	-	-	-	-	(1,249)	(1,249)
Balance, December 31, 2016	37,712	-	938	3,087	(4,555)	37,182

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000)	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the year	(1,249)	(3,809)
Items not involving cash:		
Deferred tax recovery (note 13)	-	(336)
Depletion, depreciation and amortization (notes 7 and 8)	4,098	2,387
Accretion of decommissioning liability (note 11)	45	32
Share-based compensation (note 12)	940	689
(Gain) loss on investment (note 9)	(120)	95
Flow-through share renunciation	-	(330)
Impairment (notes 7 and 8)	-	2,351
Gain on disposition of assets (note 8)	(70)	-
Decommissioning liabilities settled (note 11)	(9)	(10)
Change in non-cash working capital (note 16)	(1,298)	138
	2,337	1,207
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from the issuance of common shares less share issue costs (note 12b)	-	24,709
Repurchase of common shares (note 12b)	-	(286)
Repurchase of warrants	-	(25)
Repurchase of performance warrants (note 12e)	(5)	-
Proceeds from the exercise of stock options (note 12c)	-	125
	(5)	24,523
CASH FLOW USED IN INVESTING ACTIVITIES		
Property and equipment expenditures	(6,811)	(1,892)
Exploration and evaluation asset expenditures	(6,713)	(1,061)
Property acquisitions (note 6)	(4,093)	(251)
Property dispositions (note 8)	125	20
Disposition of investment (note 9)	358	-
Change in non-cash working capital (note 16)	1,072	(338)
	(16,062)	(3,522)
CHANGE IN CASH AND CASH EQUIVALENTS	(13,730)	22,208
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,389	181
CASH AND CASH EQUIVALENTS, END OF YEAR	8,659	22,389
Cash and cash equivalents consists of:		
Cash in bank account	2,528	2,389
Cash in short-term investments	6,131	20,000
	8,659	22,389
Cash interest paid	36	31

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2016 and 2015

1. REPORTING ENTITY

Altura Energy Inc. ("Altura" or the "Corporation") is an oil and gas exploration and production company with producing properties in east 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 200, 640 5th Avenue SW Calgary, Alberta, T2P 3G4.

On July 31, 2015, the Corporation closed a definitive reorganization and investment agreement (the "Reorganization") which provided for a non-brokered private placement (note 12b), appointment of a new management team and a future rights offering to shareholders.

On September 30, 2015, shareholders of the Corporation agreed to rename the Corporation from Northern Spirit Resources Inc. to Altura Energy Inc. and to consolidate the number of common shares on a ten for one basis. The name change and share consolidation was effected on October 16, 2015. The number of shares, warrants and options outstanding have been adjusted on a retroactive basis.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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").

These financial statements were approved by the Board of Directors on March 22, 2017.

(b) Basis of Measurement and Principles of Consolidation

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

(c) Functional and Presentation Currency

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

(d) 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.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

The determination of a cash generating unit ("CGU") and whether an acquisition transaction constitutes a business combination is subject to management judgments. The recoverability of property and equipment and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The key estimates Altura applies in determining an acceptable range of recoverable amounts normally includes information on future commodity prices, expected production volumes, quantity of reserves, future development and operating costs, discount rates, and income taxes.

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in these financial statements.

The amounts recorded for the depletion of property and equipment, the provision for decommissioning liability and the amounts used in the impairment calculations are based on estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the financial statements of future periods could be material.

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment costs, all of which are subject to uncertainty. Actual results could differ as a result of using estimates.

Share-based compensation expense involves the estimate of the fair value of stock options and performance warrants at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the security subject to the option. The charge is measured using the Black-Scholes option pricing model, which could be replaced by a pricing model producing different results.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income (loss) in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

Altura follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, operating, transportation and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized when volumes are delivered and title passes to an external party at contractual delivery points and collection is reasonably assured and are recorded gross of transportation charges incurred by the Corporation. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits and term investments held with a financial institution with an original maturity of three months or less.

(c) Jointly owned assets

Many of the Corporation's oil and natural gas activities involve jointly owned assets. The financial statements include Altura's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

(d) Share-based compensation

The Corporation accounts for its share-based compensation plan using the fair value method, which is estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options and performance warrants granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options or performance warrants, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Forfeitures of stock options and performance warrants are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(e) Exploration and evaluation assets

Exploration and Evaluation ("E&E") costs incurred prior to acquiring the legal right to explore in an area are charged directly to income (loss). Costs incurred after the legal right to explore is obtained, but before technical feasibility and commercial viability of the area has been established, are capitalized as E&E assets. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs and other directly attributable administrative costs.

Once an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment. The carrying value, net of any impairment, is then reclassified to property and equipment as a Developed and Producing ("D&P") asset. If an area is determined not to be technically feasible and commercially viable, or the Corporation discontinues its exploration and evaluation activity, any unrecoverable costs are charged to income (loss).

(f) Property and equipment

Property and equipment, which include oil and gas D&P assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. D&P assets include mineral lease acquisitions, geological and geophysical, drilling and completion, facility and production equipment,

other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Gains and losses on disposals of properties are determined by comparing the proceeds to the net carrying value of the properties and are recognized in income (loss).

(g) Depletion and depreciation

D&P and E&E assets, if producing, are separated into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

- (i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
- (ii) total capitalized costs plus estimated future development costs of proved and probable reserves, including future estimated asset retirement costs; and
- (iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

(h) Impairment

Developed and Producing Assets

D&P assets are aggregated into CGUs for the purposes of impairment testing. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost to sell or its value in use.

When the carrying value exceeds the recoverable amount an impairment loss is recognized in income (loss).

Reversals of impairments are recognized when events or circumstances that triggered the original impairment have changed. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

Exploration and Evaluation Assets

E&E assets are assessed for impairment at the CGU level. Impairment tests are carried out when E&E assets are transferred to development and production assets once an area is determined to be technically feasible and commercially viable, and any time that circumstances arise which could indicate a potential impairment, including land lease expiries. An impairment is recognized if the total carrying value of E&E assets exceed the aggregate impairment cushions calculated for Altura's CGUs and is applied to reduce the carrying amount of E&E assets on a pro-rata basis. If E&E assets are subject to impairment testing in the same period in which there is an indication of impairment in one of Altura's CGUs, that CGU is first tested for impairment and any resulting impairment loss is recorded prior to conducting impairment tests on E&E assets.

(i) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank debt, if any. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest method.

Altura's investment is measured at fair value with changes in fair value recognized in income (loss).

(j) Decommissioning liabilities

The Corporation's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Altura recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk-free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in income (loss). Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(k) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net income (loss). Transaction costs associated with a business combination are expensed as incurred.

(l) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(m) Per share amounts

Basic per share amounts are computed by dividing income (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that would occur if dilutive instruments were exercised and common shares issued.

(n) Interest income and expenses

Interest and financing charges include interest expense on borrowings, standby fees on the unutilized credit facility, letter of credit fees issued against the credit facility and renewal fees of the credit facility. Interest income is recognized as it is earned.

(o) Flow-through shares

The Corporation may issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. The difference between the value of the flow-through shares issued and the value that would have been received for common shares as at the date of announcement of the flow-through share issuance is initially recognized as a flow-through share premium liability. When the expenditures are incurred, the liability is reduced, a deferred tax liability is recorded equal to the estimated amount of deferred income tax payable by the Corporation as a result of the renunciation and the difference is recognized as a deferred tax expense.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resources property exploration and/or development expenditures. The Corporation may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through share regulations. When applicable, this tax is recorded in interest and financing charges.

(p) Share capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares, net of tax, are recognized as a deduction from equity.

(q) Change in presentation

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

4. FUTURE CHANGES IN ACCOUNTING POLICIES

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Corporation on January 1, 2018. Altura is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments". The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition

and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. As the Corporation does not currently apply hedge accounting it anticipates that this standard will not have a material impact on Altura's financial statements.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Altura on January 1, 2019 and the Corporation is currently evaluating the impact of the standard on Altura's financial statements.

5. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property and equipment and exploration and evaluation assets

The fair value of property and equipment recognized in a business combination, is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration and evaluation assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and bank debt

The fair value of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and bank debt, if any, are estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2016 and December 31, 2015, the fair value of these balances approximated their carrying value due to their short term to maturity. The Corporation's bank debt, if any, bears interest at a floating rate and the margins charged by the lender are indicative of current credit spreads. Accordingly the fair market value approximates the carrying value.

(iii) Investment

The fair value of the Corporation's investment in a publicly traded entity was determined using publicly quoted market prices.

(iv) Share-based payments

The fair value of share-based payments is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historical daily traded volatility), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield and the risk-free interest rate (based on government bonds).

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

6. ACQUISITIONS

On September 14, 2016, Altura closed the acquisition of a producing petroleum and natural gas asset in the Killam area of Alberta for cash consideration of \$4.1 million. The acquisition was completed to further Altura's growth strategy of acquiring low decline oil weighted assets. The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired and the liabilities assumed are recorded at fair value.

The asset acquired has contributed revenues of \$480,000 and operating income of \$148,000 since September 14, 2016. Had the acquisition closed on January 1, 2016, estimated contributed revenues would have been \$1.4 million and estimated contributed operating income would have been \$0.4 million for year ended December 31, 2016. The additional oil and gas revenues and operating income are estimates and may not be representative of the results had the acquisitions actually occurred on January 1, 2016.

Net assets acquired (\$000)	
Property and equipment	5,225
Prepaid expenses and deposits	68
Decommissioning liability	(1,200)
	4,093
Consideration	
Cash	4,093

The accounting for this acquisition will be finalized after all actual results have been obtained and the final fair values of the assets and liabilities have been determined. Accordingly, the above acquisition accounting may be subject to change.

In 2015 the Corporation acquired increased working interests of non-producing properties in the Wildmere area for cash proceeds of \$251,000. The Corporation also assumed \$133,000 in a decommissioning liability.

7. EXPLORATION AND EVALUATION

The following table reconciles Altura's exploration and evaluation ("E&E") assets:

(\$000)	Total
Balance, December 31, 2014	1,446
Additions	1,067
Transfers to property and equipment	(33)
Impairment	(712)
Balance, December 31, 2015	1,768
Additions	6,789
Transfers to property and equipment	(933)
Change in decommissioning costs	406
Depletion	(165)
Balance, December 31, 2016	7,865

E&E assets consist of the Corporation's projects that have yet to be established as technically feasible and commercially viable. Additions represent Altura's share of costs incurred on E&E assets during the periods. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$217,000 in the year ended December 31, 2016 (December 31, 2015 – \$19,000).

Altura has an E&E property that has sales of petroleum products associated with production from a new well. The well was drilled in a new pool in the Leduc-Woodbend area but it is too early to assess commercial viability due to limited production history and no direct offsetting wells in the area. Altura expects Leduc-Woodbend to be a key growth area for the Corporation. For the year ended December 31, 2016, the operating results of this well have been recognized in income (loss) and comprised sales of crude oil, natural gas, and natural gas liquids of \$322,000, royalties of \$62,000, operating expenses of \$116,000, and transportation expenses of \$10,000. All operating cash flows associated with E&E assets for the year ended December 31, 2016, are reflected in cash flow from operating activities. Altura recorded depletion expense from E&E assets of \$165,000 in income (loss) for the year ended December 31, 2016.

Impairment

At December 31, 2016, Altura evaluated its E&E assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on Altura's E&E assets for the year ended December 31, 2016.

In the year ended December 31, 2015, the Corporation recognized impairment of \$712,000 on E&E assets related to exploration activities in certain areas with carrying values estimated to exceed the recoverable amounts. During the year ended December 31, 2015, the Corporation determined there to be indicators of impairment regarding these E&E assets, based on the prolonged decline of crude oil prices, reallocations of future capital spending and upcoming land expiries. As a result, the Corporation impaired these E&E assets principally comprised of historic land acquisition costs.

8. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost (\$000)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2014	19,739	4	19,743
Additions	1,913	31	1,944
Acquisitions	383	-	383
Dispositions	(20)	-	(20)
Transfers from E&E assets	33	-	33
Change in decommissioning costs	588	-	588
Balance, December 31, 2015	22,636	35	22,671
Additions	6,929	5	6,934
Acquisition (note 6)	5,225	-	5,225
Disposition	(124)	-	(124)
Transfers from E&E assets	933	-	933
Change in decommissioning costs	1,938	-	1,938
Balance, December 31, 2016	37,537	40	37,577
Depletion, depreciation and impairment			
(\$000)			
Balance, December 31, 2014	(2,586)	(3)	(2,589)
Depletion, depreciation and amortization	(2,383)	(5)	(2,388)
Impairment	(1,639)	-	(1,639)
Balance, December 31, 2015	(6,608)	(8)	(6,616)
Depletion, depreciation and amortization	(3,924)	(9)	(3,933)
Disposition	15	-	15
Balance, December 31, 2016	(10,517)	(17)	(10,534)
Carry amounts			
(\$000)			
As at December 31, 2015	16,028	27	16,055
As at December 31, 2016	27,020	23	27,043

At December 31, 2016, estimated future development costs of \$16.8 million (December 31, 2015 – \$9.2 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 \$197,000 in the year ended December 31, 2016 (December 31, 2015 – \$193,000).

Dispositions

In 2016 the Corporation divested minor non-producing properties for aggregate proceeds of \$125,000. Altura recorded a gain of \$70,000 on the dispositions in the year ended December 31, 2016.

In 2015, the Corporation divested a minor non-producing property for \$20,000. The Corporation did not record a gain or loss on the divestiture as the carrying value approximated the proceeds received.

Impairment

At December 31, 2016, Altura evaluated its D&P assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded for the year ended December 31, 2016.

Altura conducted tests of impairment on September 30, 2015 and December 31, 2015 on all of its CGUs as a result of decreases in the outlook of future commodity prices as well as, in some CGUs, negative technical reserve revisions

in areas with little capital development activity in that year and decreased undeveloped land fair values. As a result of the impairment tests conducted during the three and nine months ended September 30, 2015, Altura recorded impairment charges to its D&P assets of \$1.6 million. No further impairment was recorded at December 31, 2015.

In estimating the recoverable amount of each CGU, the following information was incorporated:

- the net present value of the before tax cash flows from proved plus probable oil and gas reserves of each CGU at December 31, 2015 based on reserves estimated by an independent reserves evaluator. The September 30, 2015 reserves were estimated by a member of management who is a qualified reserves evaluator;
- the fair value of undeveloped land based on management estimates; and,
- recent transactions completed within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

- Reserves and resources – Assumptions that are valid at the time of reserve and resource estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and resources and may ultimately result in reserves and resources being restated.
- Crude oil and natural gas prices – Forward price estimates of the crude oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

The estimated recoverable amounts were based on value in use calculations using a 12.5 percent before tax discount rate, which was based on an estimated industry weighted average cost of capital for the assets in the CGUs, and the following forward commodity price estimates:

	WTI Oil (\$US/bbl) ^(1,2)	Western Canadian Select Crude Oil (\$CAD/bbl) ^(1,2)	AECO gas (\$CAD/mmbtu) (1,2)	\$US/\$CAD^(1,2)
2016	55.00	56.60	3.35	0.76
2017	61.20	61.70	3.65	0.78
2018	65.00	65.60	3.85	0.78
2019	69.00	68.00	4.00	0.80
2020	73.10	72.20	4.25	0.80
2021	77.30	76.50	4.45	0.80
2022	81.60	81.00	4.70	0.80
2023	86.20	85.70	5.00	0.80
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	

(1) Source: Independent external reserves evaluator. October 1, 2016 price forecast.

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

The results of the impairment tests are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development capital expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges.

9. INVESTMENT

In 2016 the Corporation sold its entire investment of common shares in the share capital of a publicly traded company for \$358,000 net of transaction costs. For the year ended December 31, 2016, the Corporation recorded a gain on sale of \$120,000 (December 31, 2015 – loss on fair value redetermination of \$95,000).

10. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian chartered bank (the "Lender") with a maximum borrowing limit of \$4.0 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.5 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

The Credit Facility is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a \$12.0 million debenture with a first floating charge over all assets of the Corporation. Altura is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility is added to current assets. As at December 31, 2016, the working capital ratio as defined was 5.9:1 (December 31, 2015 – 29.8:1). The next review date for the Credit Facility has been set for May 31, 2017.

As at December 31, 2016, the Credit Facility was undrawn, however, the Corporation had an outstanding letter of credit for \$50,000 (December 31, 2015 - \$nil).

11. DECOMMISSIONING LIABILITY

The Corporation's decommissioning liability results from net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Altura estimates the total undiscounted and unescalated amount of cash flows required to settle its decommissioning obligations as at December 31, 2016 to be approximately \$6.3 million (December 31, 2015 – \$2.5 million) with the majority of costs anticipated to be incurred between 2023 and 2034. A risk-free discount rate of 2.3 percent (December 31, 2015 – 1.4 percent) and an inflation rate of 2.0 percent (December 31, 2015 – 2.0 percent) was used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	2,626	1,883
Additions	1,028	106
Liabilities acquired (note 6)	1,200	133
Liabilities disposed	(25)	-
Change in estimates ⁽¹⁾	(1,393)	445
Revaluation of liabilities acquired ⁽²⁾	2,709	37
Decommissioning liabilities settled	(9)	(10)
Accretion	45	32
Balance, end of year	6,181	2,626

(1) The change in estimates consists of a change in the risk-free discount rate of \$1,055,000 (December 31, 2015 – \$74,000) and a change in abandonment and remediation cost estimates and future abandonment dates of \$338,000 (December 31, 2015 – \$371,000).

(2) Amount relates to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisitions decommissioning obligations were estimated using a credit adjusted discount rate of 10%.

12. 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, 2014	35,327,599	13,046
Repurchase of common shares (i)	(624,200)	(230)
Exercise of stock options	250,000	188
Issuance of common shares on recapitalization (ii)	62,723,526	21,169
Issuance of units on recapitalization (ii)	10,223,953	3,451
Issuance of common shares on rights offering (iii)	1,020,125	344
Fractional rounding on share consolidation	(30)	-
Share issue costs (iv)	-	(256)
Balance, December 31, 2015 and December 31, 2016	108,920,973	37,712

On October 19, 2015 the Corporation completed a 10 to 1 common share consolidation. The number of shares, warrants and options outstanding have been adjusted on a retroactive basis.

- i) On December 18, 2014, the TSX Venture Exchange authorized the Corporation's notice to make a normal course issuer bid ("NCIB") to purchase for cancellation of up to 2,315,134 common shares of the Corporation on the open market during the period from December 24, 2014 to December 24, 2015. For the year ended December 31, 2015, the Corporation purchased a total of 624,200 common shares for cancellation at a weighted average price of \$0.46 per share pursuant to the NCIB, which excludes the fees incurred to implement the NCIB program. The excess of the purchase price over the book value of \$56,000 was charged to deficit.
- ii) On July 31, August 28, and September 4, 2015, the Corporation closed three tranches of a non-brokered private placement issuing (i) 10,223,953 units ("Units") at a price of \$0.3375 per unit to insiders, directors and management and (ii) 62,723,526 common shares of the Corporation at a price of \$0.3375 per common share for aggregate gross proceeds of \$24.6 million. Each Unit is comprised of one common share and one common share purchase warrant (a "Performance Warrant"). Each Performance Warrant will entitle the holder to purchase one common share at a price of \$0.449 per share for a period of five years (note 12e).
- iii) On October 9, 2015, the Corporation completed a rights offering to shareholders of the Corporation (the "Rights Offering"). Under the Rights Offering, holders of common shares of the Corporation subscribed for and purchased an aggregate of 1,020,125 common shares at a price of \$0.3375 per common share, resulting in gross proceeds to the Corporation of \$344,000.
- iv) Share issue costs on the private placement and Rights Offering totaled \$256,000.

(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.

No stock options were exercised in the year ended December 31, 2016. For stock options exercised during the year ended December 31, 2015, the weighted average trading price was \$0.50 per common share.

A summary of the Corporation's outstanding stock options at December 31, 2016 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2014	1,510,000	1.00
Granted	5,500,000	0.38
Exercised	(250,000)	0.50
Cancelled	(2,810,000)	0.77
Balance, December 31, 2015	3,950,000	0.34
Granted	2,120,000	0.27
Forfeited	(500,000)	0.34
Balance, December 31, 2016	5,570,000	0.31

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2016 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low (\$)	High (\$)	Quantity	Remaining contractual life (years)	Exercise Price	Quantity	Remaining contractual life (years)	Exercise Price (\$)
0.27	0.34	5,570,000	4.3	0.31	1,150,003	3.9	\$0.34
		5,570,000	4.3	0.31	1,150,003	3.9	\$0.34

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

	Year ended December 31, 2016	Year ended December 31, 2015
Weighted average fair value of options granted (\$)	0.18	0.24
Risk-free interest rate (%)	0.79	0.73
Expected life (years)	3.5	3.4
Expected volatility (%)	100.4	105.4
Estimated forfeiture rate (%)	5.0	7.0
Expected dividends (\$)	-	-

The Corporation's share-based payments relating to stock options for the year ended December 31, 2016 was \$456,000 (December 31, 2015 – \$457,000) of which \$88,000 was capitalized (December 31, 2015 – \$46,000).

(d) Weighted average common shares:

	Year ended December 31, 2016	Year ended December 31, 2015
Basic	108,920,973	65,619,077
Diluted	108,920,973	65,619,077

For the year ended December 31, 2016, 5,570,000 stock options and 9,749,879 Performance Warrants were excluded from the weighted average number of common shares as they were anti-dilutive (December 31, 2015 – 3,950,000 stock options and 10,223,953 Performance Warrants).

(e) Performance Warrants:

A summary of the Corporation's outstanding performance warrants at December 31, 2016 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2014	-	-
Granted	10,223,953	0.449
Balance, December 31, 2015	10,223,953	0.449
Forfeited	(474,074)	0.449
Balance, December 31, 2016	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. The Performance Warrants expire on July 31, and August 28, 2020. As at December 31, 2016 no 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 payments relating to Performance Warrants for the year ended December 31, 2016 was \$654,000 (December 31, 2015 – \$289,000) of which \$82,000 was capitalized (December 31, 2015 – \$11,000). The fair value of the Performance Warrants is being expensed over the expected life.

In 2016 Altura repurchased 474,074 Performance Warrants for cancellation for \$5,000 from a former officer of the Corporation, pursuant to the terms of the July 6, 2015 reorganization and investment agreement.

13. INCOME TAXES

The provision for income tax in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rates to the Corporation's income (loss) before income taxes. This difference results from the following items:

(\$000)	Year ended December 31, 2016	Year ended December 31, 2015
Net loss before income taxes	(1,249)	(4,145)
Combined federal and provincial income tax rate	27%	26.0%
Computed income tax recovery	(337)	(1,078)
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	259	180
Non-deductible expenses	2	1
Flow-through share expenditures	-	(86)
Change in estimates and other	(8)	142
Non-deductible portion of eligible capital expenditures	-	70
Non-deductible portion of capital loss	(16)	-
Tax benefits not recognized	100	435
	-	(336)

The income tax rate change is due to an increase in the Alberta provincial corporate tax rate from 10 percent to 12 percent effective July 1, 2015.

The components of deferred income tax assets and liabilities are as follows:

(\$000)	December 31, 2016	December 31, 2015
Deferred income tax liabilities:		
Property and equipment and E&E assets	(3,245)	(1,827)
Deferred income tax assets:		
Investment	-	32
Decommissioning liability	1,669	709
Non-capital losses	1,375	811
Capital losses	16	-
Share issue costs	50	73
Cumulative eligible capital	135	202
Deferred tax asset (liabilities)	-	-

Deferred tax assets have not been recognized in respect to the following items:

(\$000)	December 31, 2016	December 31, 2015
Temporary differences associated with unrecognized deferred tax assets:		
Non-capital losses	2,296	1,986

14. FINANCIAL INSTRUMENTS

Altura is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Corporation, sets appropriate risk limits and controls, and monitors risks and market conditions and the Corporation's activities.

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 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, the investment and accounts receivable.

The majority of the credit exposure on accounts receivable at December 31, 2016, pertains to revenue for accrued December 2016 production volumes. Altura primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. A significant portion of Altura's accounts receivable is carried by two marketing companies with sound financial positioning. At December 31, 2016, 50 percent and 13 percent of total outstanding accounts receivable pertains to these companies. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at December 31, 2016.

At December 31, 2016, the Corporation's trade receivables have been aged as follows:

(\$)	December 31, 2016	December 31, 2015
Current	1,835	446
31 – 60 days	244	20
61 – 90 days	58	1
> 90 days	139	65
Allowance for doubtful accounts	-	(64)
Total	2,276	468

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Altura considers all amounts greater than 90 days to be past due. At December 31, 2016 management determined all accounts receivable to be collectable. As at December 31, 2015, \$64,000 of accounts receivable past due was determined to be uncollectable.

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 cash on hand, internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, access to these external sources may change at any time and are subject to numerous factors. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the credit facility, if any, is due on demand.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), foreign currency exchange risk and interest rate risk.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Corporation's cash flows and borrowing base limit under its credit facility. Lower commodity prices may also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States of America, but also by world events that dictate the levels of supply and demand. The Corporation had no risk management contracts that would be affected by commodity prices in place at December 31, 2016.

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Altura for its petroleum and natural gas sales. The Corporation had no risk management contracts that would be affected by foreign currency changes in place at December 31, 2016.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's credit facility is exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates. The Corporation had no risk management contracts that would be affected by interest rates in place at December 31, 2016.

15. 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, if any, 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 funds from operations, which is defined as bank debt plus working capital, to annualized funds from operations (based on the most recent quarter), defined as cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures and transaction costs. Net debt to annualized funds from operations 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, 1.0 to 1.0 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, as at December 31, 2016 and 2015, the Corporation's ratio of net debt to annualized funds from operations was nil as Altura had no debt and a working capital surplus.

(\$000)	December 31, 2016	December 31, 2015
Working capital surplus	8,455	22,128
Annualized funds from operations:		
Quarterly cash flow from operating activities	1,683	265
Changes in non-cash working capital	508	140
Decommissioning expenditures	6	10
Quarterly funds from operations	2,197	415
Annualized funds from operations	8,788	1,660
Net debt to annualized funds from operations	-	-

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 2016.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Year ended December 31, 2016	Year ended December 31, 2015
Provided by (used in):		
Accounts receivable	(1,808)	221
Prepaid expenses and deposits	(42)	(20)
Accounts payable and accrued liabilities	1,556	(401)
Working capital acquired in acquisition (note 6)	68	-
	(226)	(200)
Provided by (used in):		
Operating activities	(1,298)	138
Investing activities	1,072	(338)
	(226)	(200)

17. PERSONNEL EXPENSES

The aggregate compensation of key management personnel was as follows:

(\$000)	Year ended December 31, 2016	Year ended December 31, 2015
Salaries and benefits	874	814
Termination benefits	173	305
Share-based compensation	1,085	746
	2,132	1,865

Altura's key management personnel include officers and directors as well as former officers and directors of the Corporation. Salaries and benefits and share-based compensation include the capitalized and non-capitalized portion of these expenditures recorded in the financial statements during the respective periods.

18. COMMITMENT

In October 2016, the Corporation entered into an agreement whereby Altura acquired freehold petroleum leases in Alberta. Pursuant to the agreement, Altura has committed to drill one horizontal commitment well by December 31, 2017, subject to a non-performance penalty of \$500,000 if the commitment was not fulfilled. Subsequent to December 31, 2016, the Corporation fulfilled the commitment.

CORPORATE INFORMATION

BOARD OF DIRECTORS

David Burghardt
President & Chief Executive Officer
Altura Energy Inc.

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

Brian Lavergne
President & Chief Executive Officer
Storm Resources Ltd.

Robert Maitland
Independent Businessman

John McAleer
Managing Director
Palisade Capital Management Ltd.

OFFICERS

David Burghardt
President & Chief Executive Officer

Travis Stephenson
Vice President, Engineering

D. Robert Pinckston
Vice President, Exploration

Jeff Mazurak
Vice President, Operations

Tavis Carlson
Vice President, Finance & Chief Financial Officer

Craig Stayura
Vice President, Land

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

ATB Corporate Financial Services
Calgary, Alberta

LEGAL COUNSEL

Stikeman Elliott LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK TRADING

TSX Venture Exchange
Trading Symbol: **ATU**

