

2019
FOURTH QUARTER REPORT



OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Year ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019	December 31, 2018
OPERATING					
Average daily production					
Heavy oil (bbls/d)	881	1,150	1,044	1,112	720
Light & medium oil (bbls/d)	-	-	46	17	193
Natural gas (Mcf/d)	3,406	3,733	1,699	3,145	1,369
NGLs (bbls/d)	113	108	38	89	30
Total (boe/d)	1,561	1,880	1,412	1,742	1,172
Total boe/d per million shares – diluted	14.3	17.2	12.8	16.0	10.6
Average realized prices					
Heavy oil (\$/bbl)	54.40	55.31	25.28	55.69	43.46
Light & medium oil (\$/bbl)	-	-	51.44	48.81	57.94
Natural gas (\$/Mcf)	2.70	0.95	1.74	1.73	1.63
NGLs (\$/bbl)	26.64	24.42	40.19	26.75	47.57
Total (\$/boe)	38.50	37.12	23.57	40.50	39.40
(\$/boe)					
Petroleum and natural gas sales	38.50	37.12	23.57	40.50	39.40
Realized gain (loss) on financial instruments	0.53	(0.22)	-	0.34	-
Royalties	(4.43)	(4.20)	(2.40)	(4.16)	(3.93)
Operating	(8.63)	(6.92)	(6.16)	(8.25)	(8.90)
Transportation	(2.45)	(2.93)	(2.45)	(3.48)	(2.03)
Operating netback ⁽¹⁾	23.52	22.85	12.56	24.95	24.54
General and administrative	(2.52)	(2.16)	(5.99)	(2.55)	(4.92)
Exploration expense	-	-	(0.04)	(0.03)	(0.06)
Interest and financing expense (cash)	(0.37)	(0.27)	(0.18)	(0.36)	(0.37)
Interest Income	-	-	-	-	0.12
Adjusted funds flow per boe ⁽¹⁾	20.63	20.42	6.35	22.01	19.31
FINANCIAL (\$000, except per share amounts)					
Petroleum and natural gas sales	5,531	6,420	3,062	25,757	16,847
Cash flow from operating activities	3,955	3,118	4,200	12,994	9,787
Per share – diluted	0.04	0.03	0.04	0.12	0.09
Adjusted funds flow ⁽¹⁾	2,963	3,532	826	13,994	8,256
Per share – diluted ⁽¹⁾	0.03	0.03	0.01	0.13	0.07
Net income (loss)	(56)	298	(984)	2,215	2,693
Per share – basic	-	-	(0.01)	0.02	0.02
Per share – diluted ⁽²⁾	-	-	(0.01)	0.02	0.02
Capital expenditures	1,528	3,553	3,050	12,884	33,456
Property acquisitions (dispositions), net	(3,508)	-	986	(3,508)	(24,089)
Total capital expenditures, net	(1,980)	3,553	4,036	9,376	9,367
Net debt ⁽¹⁾	563	5,130	4,805	563	4,820
Common shares outstanding (000)					
End of period – basic	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – basic ⁽²⁾	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – diluted ⁽²⁾	109,097	109,517	110,260	109,886	110,412

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

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

PRESIDENT'S MESSAGE

2019 ACHIEVEMENTS

- Produced an average of 1,742 boe per day (70% oil and liquids), an increase of 49% from 2018 on an absolute and per share basis.
- Generated adjusted funds flow¹ of \$14.0 million (\$22.01 per boe), or \$0.13 per share compared to \$8.3 million (\$19.31 per boe), or \$0.07 per share in 2018, representing an increase of 86% on a per share basis.
- Capital expenditures net of dispositions were \$9.4 million which was \$4.6 million less than adjusted funds flow¹.
- In the Leduc-Woodbend area, drilled three gross (3.0 net) and completed two gross (2.0 net) wells, invested in an electrification project and a solution gas compressor, and changed the artificial lift system on 11 wells to improve run-time efficiencies.
- Entered into a definitive agreement for an asset sale of a 12.5% working interest (the "Asset Disposition") in the Corporation's production, wells, lands and facilities for \$7.0 million in two transactions. The first transaction closed on December 4, 2019 with a 7% working interest being divested for \$3.5 million. Proceeds from the first transaction were allocated to the first horizontal well at Entice in early 2020.
- Net debt¹ decreased to \$0.6 million at December 31, 2019 compared to \$4.8 million at December 31, 2018, resulting in a ratio of net debt to annualized fourth quarter adjusted funds flow of 0.05.
- March 7, 2020 AER Liability Management Rating ("LMR") of 9.90.

FOURTH QUARTER REVIEW

Altura invested \$1.5 million of capital in the fourth quarter bringing the total capital invested in 2019 to \$12.9 million. Fourth quarter capital activity was focused on Leduc-Woodbend including drilling a horizontal well, waterflood pilot costs, and workover costs related to a well clean-out. Additionally, Altura changed the artificial lift system on two wells to improve run-time efficiencies.

On December 4, 2019, Altura entered into a definitive agreement for the sale of a 12.5% working interest in the Corporation's production, wells, lands and facilities for cash of \$7.0 million in two transactions. The first transaction closed on December 4, 2019, whereby Altura divested of a 7.0% working interest (the "7% Asset Disposition") for cash of \$3.5 million. Pursuant to the definitive agreement for the 12.5% working interest sale, closing of the second transaction is to occur on or before December 31, 2020 whereby Altura will divest of a 5.5% working interest in the Corporation's production, wells, lands and facilities for cash of \$3.5 million. The definitive agreement for the asset disposition requires the proceeds from the second transaction to be used to drill a horizontal well in the Entice or the Leduc-Woodbend areas before December 31, 2020.

Production volumes averaged 1,561 boe per day in the fourth quarter, an 11% increase from the fourth quarter of 2018 on an absolute and per share basis. Fourth quarter production reflects natural declines as no new wells were brought on production in the quarter and by the 7% Asset Disposition.

Altura's realized oil price decreased 2% in the fourth quarter from the third quarter of 2019 and the Corporation's average realized price per boe increased 4% from the third quarter of 2019 mainly from higher natural gas prices.

Operating expenses in the fourth quarter were \$8.63 per boe, a 25% increase from the third quarter of 2019 due to increased repairs and maintenance and chemical costs.

Transportation expenses were \$2.45 per boe, a 16% decrease from the third quarter of 2019 due to reduced crude oil production volumes relative to total production volumes.

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

The Corporation's operating netback¹ averaged \$23.52 per boe, up 3% from the third quarter of 2019 due mainly to higher natural gas prices and a gain on commodity hedging contracts, partially offset by higher operating expenses.

Adjusted funds flow¹ was \$3.0 million in the fourth quarter of 2019, down 16% from the third quarter of 2019 mainly from lower production volumes and higher operating expenses, partially offset by increased natural gas prices.

HEDGING

Altura currently has the following crude oil contracts for 300 barrels of oil per day hedged to December 31, 2020:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Jan 1/20—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD \$43.75
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD \$71.35
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD (\$24.00)

Using strip pricing at March 18, 2020, Altura's hedging gains in 2020 are estimated to be \$3.0 million.

OPERATIONAL UPDATE

In October 2019, Altura commenced water injection in a waterflood pilot project at Leduc-Woodbend. The offsetting producing wells were negatively affected by premature water break-through and water injection was suspended. The cause of the break-through is believed to be communication between fractures on the stimulated producing wells and the injection well which are approximately 200 metres apart. Further technical work is underway to assess waterflood feasibility under various scenarios including inflow control devices (ICD's), unstimulated injection wells, and increased spacing between producers and injectors.

At Entice, Altura drilled and completed its initial horizontal well (93% working interest) targeting the Pekisko Formation in January 2020. This horizontal well followed up a vertical exploratory stratigraphic well that Altura drilled in June 2019. The horizontal well was drilled to a vertical depth of 1,775 meters with a horizontal length of 2,004 meters with 45 frac stages and approximately 13 tonnes of sand per stage. Since equipping the well with artificial lift and temporary facilities on March 5th, the well has produced 645 barrels of sweet 25°API oil, 6.5 MMcf of natural gas and 4,500 barrels of water to March 17th. Approximately 73% of the total water used in the completion has been recovered to date. The well was recently shut-in as a result of the decline in oil prices. Wellsite facility equipment will remain in place and the production test will continue when oil prices improve.

Altura has acquired 89 gross (83 net) sections of land on this exploratory play at Entice where vertical well data, combined with extensive 3D seismic coverage, provided a means to identify and map the hydrocarbon accumulation. Altura is assessing the technical and commercial potential of this play over these lands to determine a potential follow up location.

OUTLOOK

Altura forecasts capital expenditures of \$7.0 million for the first quarter of 2020, funded with forecasted cash flow from operating activities and Altura's credit facility. In January Altura drilled and completed one well (0.9 net) at Entice. At Leduc-Woodbend, one well (0.9 net) that was drilled in the fourth quarter of 2019 was completed in January and one well (0.9 net) was drilled and is awaiting completion.

Further to the December 4, 2019 definitive agreement, Altura expects to close the second transaction of the Asset Disposition in the second half of 2020. The definitive agreement for the asset disposition requires the proceeds from the second transaction to be used to fund drilling of a horizontal well in either the Entice or the Leduc-Woodbend areas before December 31, 2020 with no anticipated net capital outlay by Altura.

The COVID-19 pandemic and the recent actions of Saudi Arabia and Russia in the global oil market has resulted in an unprecedented decline in crude oil prices. As a result, Altura is eliminating all discretionary capital spending for the remainder of the year. If the oil price remains at current levels, Altura has the flexibility to shut-in some or all production while generating positive adjusted funds flow in 2020 from forecasted hedging gains.

Altura has implemented measures to foster resilience through these unpredictable times, including a work-from-home program. To date, the Corporation has had no operational impacts from COVID-19.

The Corporation is focused on protecting balance sheet strength in the current volatile commodity price environment.

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

Respectfully,

/s/ David Burghardt
President and Chief Executive Officer
March 18, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Altura Energy Inc. (the "Corporation" or "Altura") is dated March 18, 2020 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, 2019 and 2018, 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 operations in central Alberta. Altura predominantly produces from the Rex member in the Upper Mannville group and is focused on delivering per share growth and attractive shareholder returns through a combination of organic growth and strategic acquisitions. Additional information regarding Altura is available on SEDAR and on its website at www.alturaenergy.ca. Altura's common shares are listed for trading on the TSX Venture Exchange under the symbol "ATU".

2019 GUIDANCE

2019 guidance is provided below along with a comparison to actuals. Previous 2019 guidance was updated in the Corporation's press release dated November 9, 2019 and Altura's Third Quarter 2019 MD&A. Copies of the press release and MD&A are available under Altura's profile on SEDAR at www.sedar.com or on Altura's website at www.alturaenergy.ca.

	November 9, 2019 Guidance	2019 Actual
2019 Capital expenditures (excluding dispositions) (\$000)	13,500	12,884
Leduc-Woodbend horizontal wells	3	3
2019 Average production volumes (boe/d)	1,700–1,800	1,742

Altura's actual capital expenditures were lower than guidance by \$0.6 million in 2019. The variance is related to deferring a completion of one Leduc-Woodbend well drilled in 2019, partially offset by increased workover expenses relating to Altura's waterflood pilot project and a well clean-out.

OUTLOOK

Altura forecasts capital expenditures of \$7.0 million for the first quarter of 2020, funded with forecasted cash flow from operating activities and Altura's credit facility. In January Altura drilled and completed one well (0.9 net) at Entice. At Leduc-Woodbend, one well (0.9 net) that was drilled in the fourth quarter of 2019 was completed in January and one well (0.9 net) was drilled and is awaiting completion.

Further to the December 4, 2019 definitive agreement, Altura expects to close the second transaction of the asset disposition in the second half of 2020. The definitive agreement for the asset disposition requires the proceeds from the second transaction to be used to fund drilling of a horizontal well in either the Entice or the Leduc-Woodbend areas before December 31, 2020 with no anticipated net capital outlay by Altura. Refer to the "Asset Disposition" section of this MD&A on page 6.

The COVID-19 pandemic and the recent actions of Saudi Arabia and Russia in the global oil market has resulted in an unprecedented decline in crude oil prices. As a result, Altura is eliminating all discretionary capital spending for the remainder

of the year. If the oil price remains at current levels, Altura has the flexibility to shut-in some or all production while generating positive adjusted funds flow in 2020 from forecasted hedging gains.

ASSET DISPOSITION

On December 4, 2019, Altura entered into a definitive agreement with an unrelated third party ("PrivateCo") for the sale of a 12.5 percent working interest in the Corporation's production, wells, lands and facilities for cash of \$7.0 million through two transactions.

The first transaction closed on December 4, 2019, whereby Altura divested a 7.0 percent working interest for cash of \$3,508,000 (the "7% Asset Disposition"). The agreement provides that Altura will pay PrivateCo's 7.0 percent interest in a well to be drilled by March 31, 2020 and a 7.0 percent interest in the completion of an additional well (the "Contract Liability"). Altura estimates the Contract Liability to be \$368,000 as at December 31, 2019.

Altura recorded \$85,000 to E&E asset dispositions, \$3,942,000 to D&P asset dispositions and reduced the decommissioning liability by \$470,000 associated with the 7% Asset Disposition and recorded a loss on disposition of \$417,000 for the year ended December 31, 2019.

The agreement committed Altura to the following:

1. Drill, complete and equip or abandon a horizontal well in the Entice area of Alberta by March 31, 2020. Altura fulfilled this commitment in March 2020.
2. Spud a second horizontal well by December 31, 2020. On or before October 30, 2020, Altura and PrivateCo shall meet and review the production information and other data from the first Entice well. If it is mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Entice area. If not mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Leduc-Woodbend area. If the second well is drilled in the Entice area, PrivateCo will pay 7.0 percent of well costs and earn a 12.5 percent working interest in the well. If the second well is drilled in the Leduc-Woodbend area, PrivateCo will pay 12.5 percent of well costs and earn a 12.5 percent working interest in the well.
3. Within 10 business days of delivering the second well location notice to PrivateCo, Altura and PrivateCo shall enter into a purchase and sale agreement for the second transaction whereby Altura will divest of an additional 5.5 percent working interest in the Corporation's production, wells, lands and facilities as at that date for cash of \$3.5 million. Proceeds will be used to fund the second well.
4. In the event a second well is drilled at Entice and both parties agree to drill a third well at Entice, the agreement provides for a third transaction whereby Altura will divest of an additional 4.0 percent working interest in the Corporation's production, wells, lands and facilities as at that date for cash of \$3.0 million. Proceeds would primarily be used to drill a third horizontal well at Entice on or before December 31, 2021. PrivateCo would pay 12.5 percent of well costs and earn a 16.5 percent working interest in the well.

SELECTED ANNUAL INFORMATION

(\$000, except per share amounts)	2019	2018	2017
Petroleum and natural gas sales	25,757	16,847	18,001
Cash flow from operating activities	12,994	9,787	9,548
Per share – diluted ⁽¹⁾	0.12	0.09	0.09
Adjusted funds flow ⁽¹⁾	13,994	8,256	9,478
Per share – diluted ⁽¹⁾	0.13	0.07	0.09
Net income (loss)	2,215	2,693	(103)
Per share – basic	0.02	0.02	-
Per share – diluted ⁽²⁾	0.02	0.02	-
Capital expenditures	12,884	33,456	22,302
Property acquisitions/(dispositions), net	(3,508)	(24,089)	(1,105)
Total capital expenditures, net	9,376	9,367	21,197
Total assets	55,053	54,023	50,807
Net debt ⁽¹⁾	563	4,805	3,729
Common shares outstanding (000)			
End of period – basic	108,921	108,921	108,921
Weighted average for the period – basic	108,921	108,921	108,921
Weighted average for the period – diluted ⁽²⁾	109,886	110,412	109,138

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

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

RESULTS OF OPERATIONS

Production

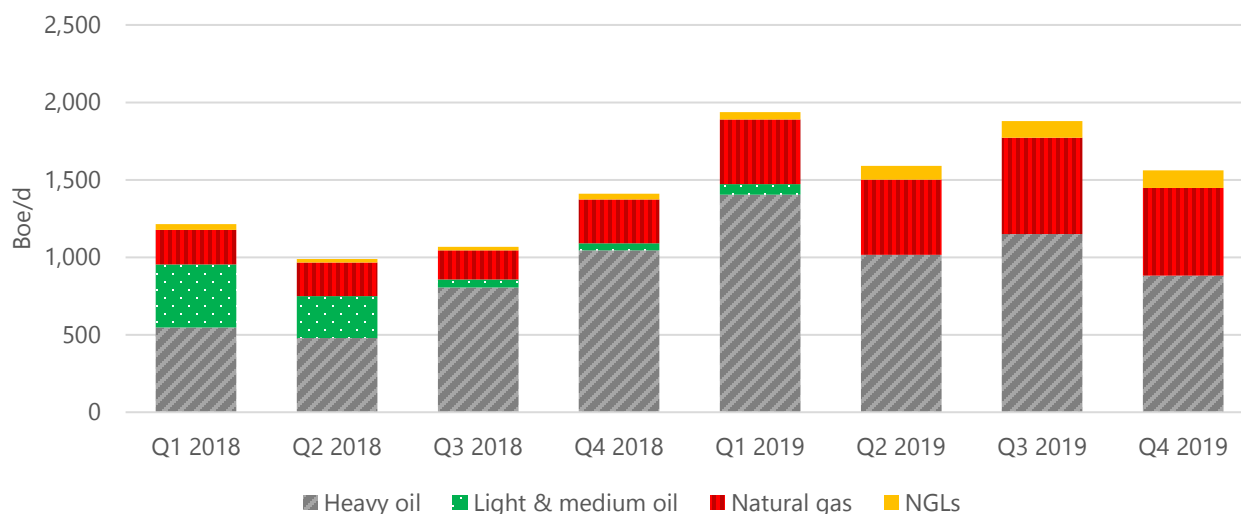
	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Heavy oil (bbls/d)	881	1,044	(16)	1,112	720	54
Light & medium oil (bbls/d)	-	46	(100)	17	193	(91)
Natural gas (Mcf/d)	3,406	1,699	100	3,145	1,369	130
Natural gas liquids ("NGLs") (bbls/d)	113	38	197	89	30	197
Total (boe/d)	1,561	1,412	11	1,742	1,172	49
Oil and natural gas liquids % of production	64%	80%	(20)	70%	81%	(14)

During the fourth quarter of 2019, heavy oil production decreased 16 percent from the fourth quarter of 2018, while natural gas and NGL production increased 100 percent and 197 percent over the same periods, respectively. The decreased oil production relates to natural declines as Altura brought seven wells on production in the second half of 2018 and only two wells on production in 2019. The increased natural gas and NGL production is due to an increased weighting of natural gas production relative to total production as the Leduc-Woodbend pool is produced over time. Fourth quarter production volumes were also impacted by approximately 25 boe per day from the 7% Asset Disposition on December 4, 2019.

In the fourth quarter of 2019, the Corporation had no light & medium oil production volumes, compared to 46 boe per day in the same period in the prior year. The decrease is due to Altura pipeline connecting two heavy oil wells producing from the Rex member to its medium oil Glauconitic battery at the end of February 2019. Commencing in March 2019, oil from this battery has been blended and sold into the heavy oil stream, eliminating Altura's light & medium oil sales.

For 2019, daily production volumes increased 49 percent compared to 2018. This was mainly due to increased production from the Leduc-Woodbend area following drilling and completions activity. The increased natural gas and NGL production is due to an increased weighting of natural gas production relative to total production as the Leduc-Woodbend pool is produced over time. Altura drilled three wells and brought two new wells on production at Leduc-Woodbend in 2019. The third well was completed and brought on production in the first quarter of 2020.

Quarterly Average Daily Production

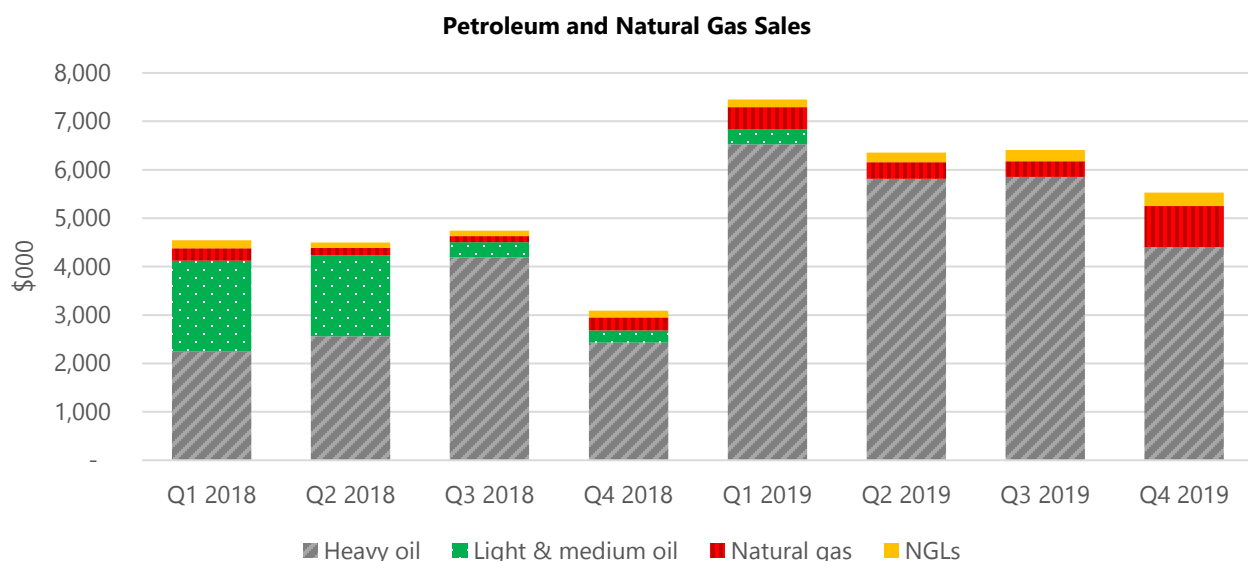


Petroleum and Natural Gas Sales

(\$000)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Heavy oil	4,408	2,429	81	22,602	11,425	98
Light & medium oil	-	250	(100)	300	4,081	(93)
Natural gas	846	272	211	1,983	816	143
NGLs	277	141	96	872	525	66
Petroleum and natural gas sales	5,531	3,062	81	25,757	16,847	53

Petroleum and natural gas sales for the fourth quarter of 2019 increased 81 percent to \$5,531,000 compared to \$3,062,000 in the fourth quarter of 2018. The increase of \$2,469,000 consists of \$2,519,000 attributed to increased crude oil, NGL and natural gas prices and \$550,000 due to increased natural gas and NGL production volumes, partially offset by \$600,000 attributed to lower crude oil production volumes. The fourth quarter of 2019 included an additional \$129,000 of heavy oil revenue relating to a favorable pricing adjustment from contracted volumes sold in December 2018.

For 2019, petroleum and natural gas sales increased 53 percent to \$25,757,000 compared to \$16,847,000 in 2018. The increase of \$8,910,000 consists of \$4,572,000 attributed to increased production volumes and \$4,338,000 attributed to higher realized crude oil, natural gas and NGL prices.



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

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

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

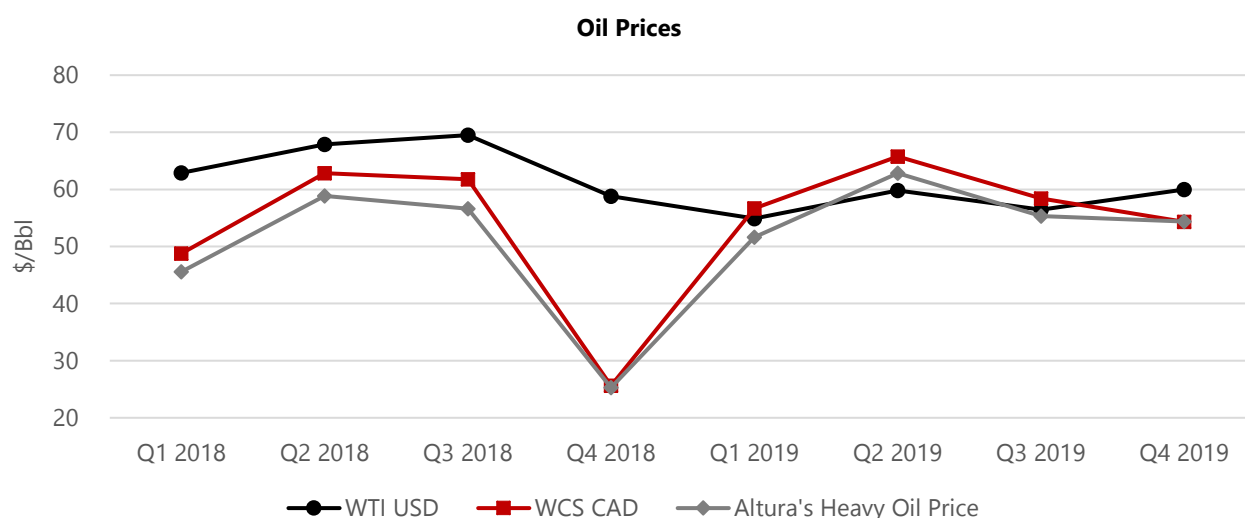
	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Average Benchmark Prices						
WTI crude oil (US\$/bbl) ⁽¹⁾	59.96	58.81	2	57.03	64.77	(12)
WCS differential (US\$/bbl) ⁽²⁾	(15.84)	(39.43)	(60)	(12.76)	(26.31)	(52)
US\$/Cdn\$ exchange rate	0.758	0.756	-	0.754	0.771	(2)
WCS (Cdn\$/bbl)	54.29	25.62	112	58.77	49.85	18
AECO daily spot (\$/GJ)	2.35	1.48	59	1.67	1.42	18
Average Realized Prices						
Heavy oil (\$/bbl)	54.40	25.28	115	55.69	43.46	28
Light & medium oil (\$/bbl)	-	51.44	(100)	48.81	57.94	(16)
Natural gas (\$/Mcf)	2.70	1.74	55	1.73	1.63	6
Natural gas liquids (\$/bbl)	26.64	40.19	(34)	26.75	47.57	(44)
Average realized price (\$/boe)	38.50	23.57	63	40.50	39.40	3

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

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

For the fourth quarter of 2019, WTI increased two percent compared to the fourth quarter of 2018, while Altura's realized heavy oil price increased 115 percent. The Corporation's realized heavy oil price benefited from the differential between WTI and WCS narrowing to an average discount of US\$15.84 per barrel compared to US\$39.43 per barrel in the fourth quarter 2018.

In 2019, WTI decreased 12 percent compared to 2018, while the differential between WTI and WCS narrowed to an average discount of US\$12.76 per barrel compared to US\$26.31 per barrel in 2018. The WCS differential started narrowing in the first quarter of 2019 due to the Alberta government's mandatory production curtailment designed to balance the market and reduce crude oil differentials. Altura's realized heavy oil price benefited from the narrower differential between WTI and WCS and increased 28 percent in 2019 compared to 2018.



In the fourth quarter of 2019, Altura's realized natural gas price increased by 55 percent to \$2.70 per Mcf from the fourth quarter of 2018 while the AECO daily spot price increased 59 percent to \$2.35 per GJ. In 2019, Altura's realized natural gas price increased by six percent to \$1.73 per Mcf from 2018 while the AECO daily spot price increased 18 percent to \$1.67 per GJ. The lower realized natural gas price increase in 2019 relative to the increase in the AECO daily spot price is due to a gas balance recovery on the NOVA pipeline, negatively impacting Altura in February and March 2019.

Risk Management Contracts

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

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Realized gain on financial instruments	76	-	-	216	-	-
Realized gain on financial instruments per boe	0.53	-	-	0.34	-	-

For the fourth quarter of 2019, the realized gain on financial instruments of \$76,000 reflects cash settlements paid on a WCS contract of 300 barrels per day at CAD \$57.00 per barrel. In 2019, Altura has a realized gain on financial instruments of \$216,000 due to cash settlements received on contracts from May to December 2019.

At December 31, 2019, Altura held the following crude oil contracts:

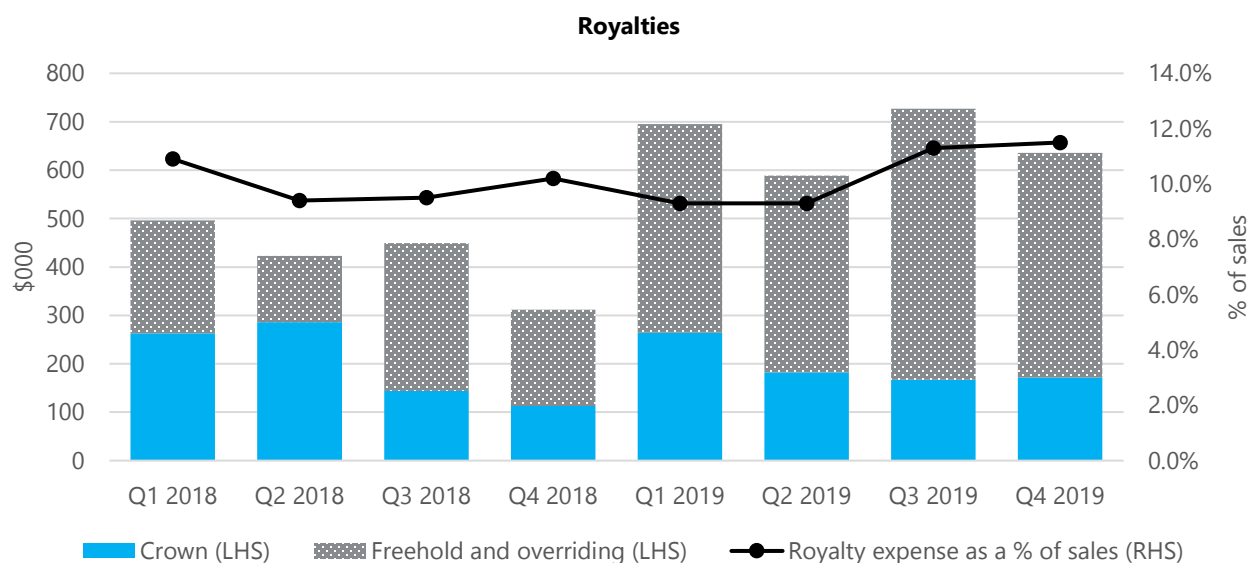
Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at
						December 31, 2019
						(\$000)
Jan 1/20—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00	194
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20	(182)
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)	(134)
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD \$43.75	(240)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD \$71.35	(48)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD (\$24.00)	(22)
						(432)

At December 31, 2019, the crude oil contracts were fair valued with a liability of \$432,000 (December 31, 2018 - \$nil) recorded on the balance sheet and unrealized losses of \$530,000 and \$432,000 recorded in net income for the three months and year ended December 31, 2019, respectively (2018 - \$nil).

Royalties

(\$000, except % and per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Crown royalties	172	113	52	785	806	(3)
Freehold and overriding royalties	464	199	133	1,862	874	113
Royalty expense	636	312	104	2,647	1,680	58
Royalty expense as a % of sales	11.5%	10.2%	13	10.3%	10.0%	3
Royalty expense per boe	4.43	2.40	85	4.16	3.93	6

Total royalties for the three months and year ended December 31, 2019 were \$636,000 and \$2,647,000 (\$312,000 and \$1,680,000 for the same periods in 2018), respectively. Total royalties as a percentage of petroleum and natural gas sales increased in the fourth quarter of 2019 to 11.5 percent (\$4.43 per boe) compared to 10.2 percent (\$2.40 per boe) in the fourth quarter of 2018. For 2019, total royalties represented 10.3 percent of petroleum and natural gas sales (\$4.16 per boe) as compared to 10.0 percent (\$3.93 per boe) in 2018. The increased royalty rate in the fourth quarter of 2019, compared to the fourth quarter of 2018, is attributed to an increased percentage of production on freehold land, which has higher royalty rates than Crown land.



*LHS = Left Hand Side

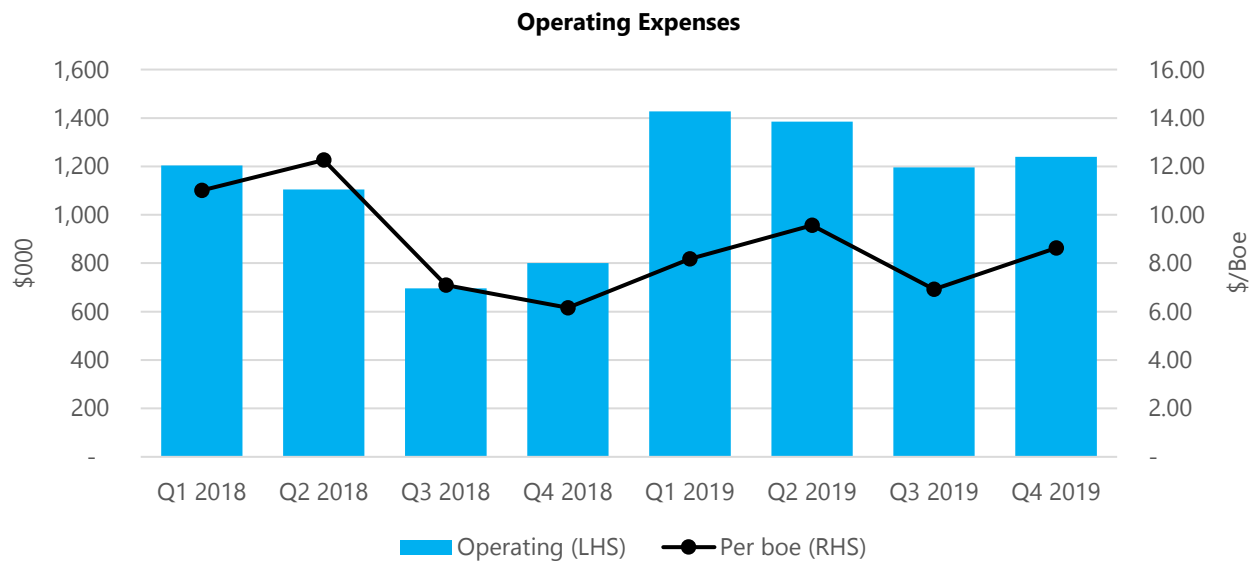
*RHS = Right Hand Side

Operating

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Operating	1,240	800	55	5,248	3,805	38
Operating per boe	8.63	6.16	40	8.25	8.90	(7)

Operating expenses increased \$440,000 in the fourth quarter of 2019 to \$1,240,000 as compared to \$800,000 in the fourth quarter of 2018. In 2019, operating expenses increased \$1,443,000 to \$5,248,000 compared to \$3,805,000 in 2018. This increase in operating expenses for the three months and year ended December 31, 2019 is due to increased production volumes associated with Altura's Leduc-Woodend development.

On a per boe basis, operating expenses increased \$2.47 per boe to \$8.63 per boe in the fourth quarter of 2019 compared to \$6.16 per boe in the fourth quarter of 2018. This increase is mainly due to increased gas processing fees associated with increased gas production volumes, and increased repairs and maintenance costs. In 2019, operating expenses decreased by \$0.65 per boe to \$8.25 per boe compared to \$8.90 per boe in 2018 due to lower water hauling and oil treating costs, partially offset by increased gas processing fees.



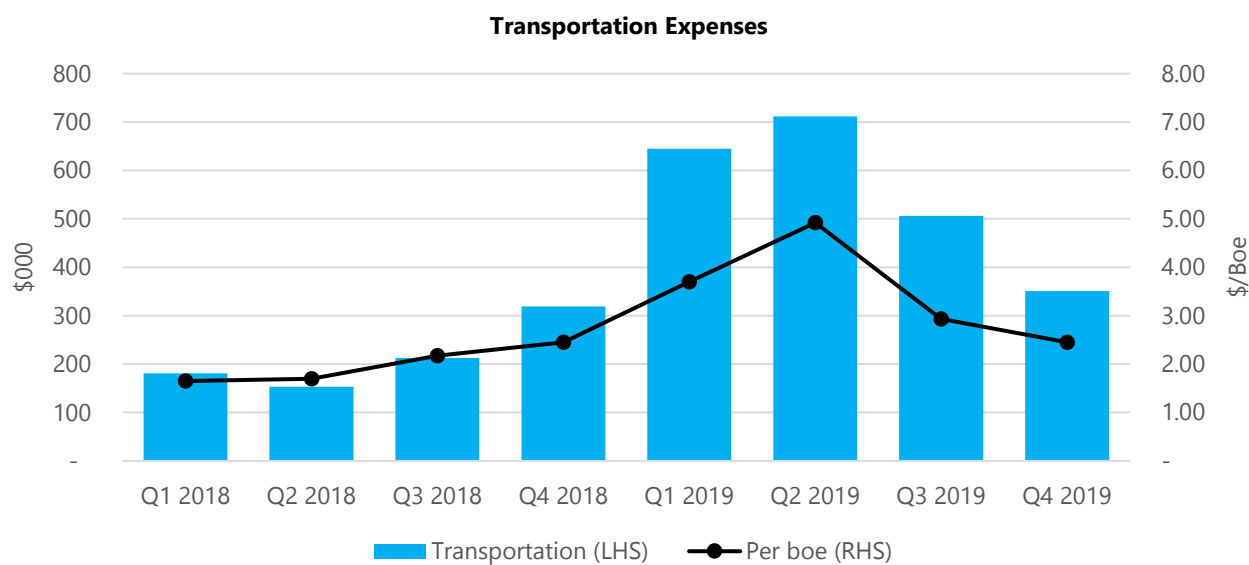
Operating expenses increased \$1.71 per boe to \$8.63 per boe in the fourth quarter of 2019 compared to \$6.92 per boe in the third quarter of 2019 due mainly to increased repairs and maintenance and chemical costs.

Transportation

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Transportation	351	319	10	2,214	866	156
Transportation per boe	2.45	2.45	-	3.48	2.03	71

Transportation expenses for the fourth quarter of 2019 increased to \$351,000 compared to \$319,000 in the fourth quarter of 2018. On a per boe basis, transportation expenses in the fourth quarter 2019 were consistent with the fourth quarter 2018. The increase on an absolute basis is due to increased production volumes.

In 2019, transportation expenses increased to \$2,214,000 compared to \$866,000 in 2018. On a per boe basis, transportation expenses increased to \$3.48 per boe in 2019 compared to \$2.03 per boe in 2018. The increase on an absolute and per unit basis is due to increased clean oil hauling associated with the completion of the Leduc-Woodbend multi-well battery, longer hauls to sales terminals in eastern Alberta in the first half of 2019 to maximize crude oil prices and due to spring break-up road restrictions that limited oil volumes per load in the second quarter of 2019.



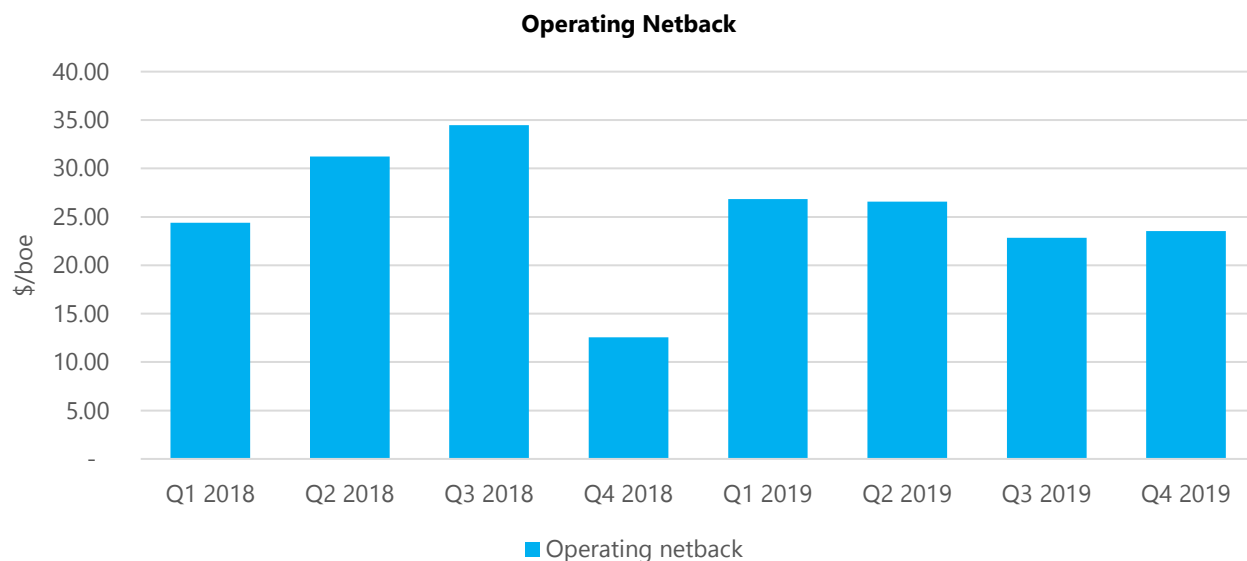
Transportation expenses in the fourth quarter of 2019 decreased \$0.48 per boe to \$2.45 per boe from the third quarter of 2019 due to reduced heavy oil production volumes relative to total production volumes.

Operating Netback

(\$/boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Petroleum and natural gas sales	38.50	23.57	63	40.50	39.40	3
Realized gain on financial instruments	0.53	-	-	0.34	-	-
Royalties	(4.43)	(2.40)	85	(4.16)	(3.93)	6
Operating	(8.63)	(6.16)	40	(8.25)	(8.90)	(7)
Transportation	(2.45)	(2.45)	-	(3.48)	(2.03)	71
Operating netback ⁽¹⁾	23.52	12.56	87	24.95	24.54	2

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

Altura's operating netback was \$23.52 per boe in the fourth quarter of 2019 compared to \$12.56 per boe in the fourth quarter of 2018. The increase is mainly a result of higher petroleum and natural gas sales prices and a realized gain on financial instruments, partially offset by increased per unit royalties and operating expenses. For 2019, Altura's operating netback was \$24.95 per boe, consistent with \$24.54 per boe in 2018.



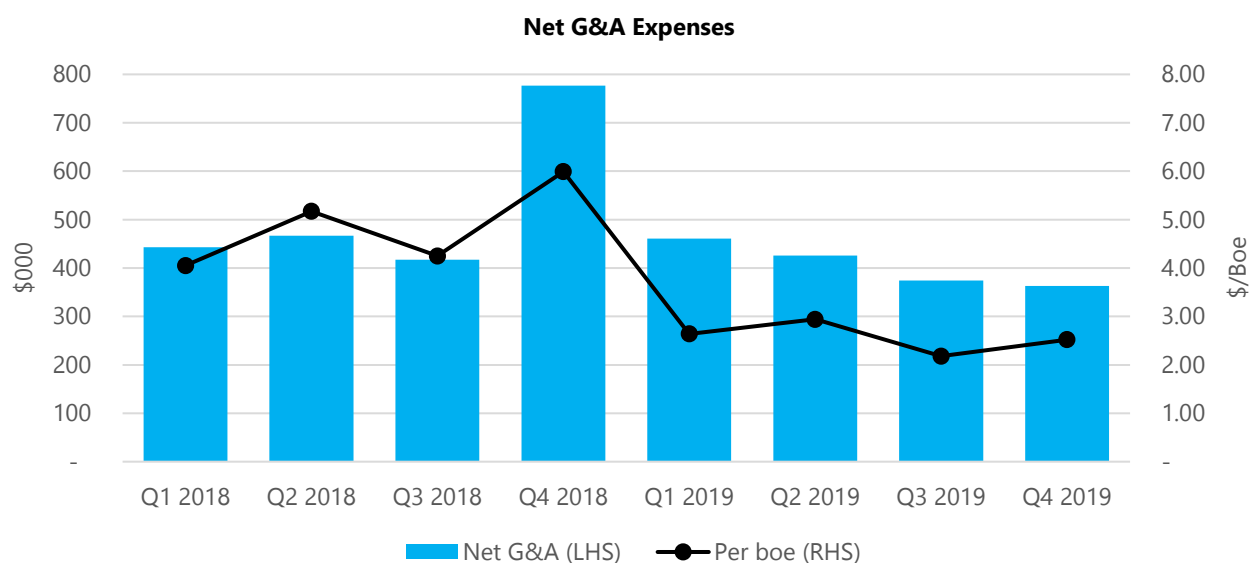
General and Administrative ("G&A") Expenses

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Gross G&A	544	925	(41)	2,309	2,664	(13)
Capitalized G&A and overhead recoveries	(181)	(148)	22	(685)	(560)	22
Net G&A expenses	363	777	(53)	1,624	2,104	(23)
Net G&A per boe	2.52	5.99	(58)	2.55	4.92	(48)

Net G&A expenses totaled \$363,000 in the fourth quarter of 2019, compared to \$777,000 for the fourth quarter of 2018. In 2019, Altura's net G&A expenses were \$1,624,000, a 23 percent decrease from 2018. The decreased net G&A in the three months and year ended December 31, 2019 compared to the same periods in 2018 is mainly due to lower performance-based compensation, an increase in overhead recoveries related to Altura's Glauconitic property and increased capitalized G&A related to Altura's Entice area.

Net G&A expenses decreased 58 percent and 48 percent to \$2.52 per boe and \$2.55 per boe for the three months and year ended December 31, 2019, respectively, compared to the same periods in 2018 due to lower net G&A expenses and increased production volumes.

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



Exploration Expense

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Exploration expense	-	5	(100)	21	25	(16)
Exploration expense per boe	-	0.04	(100)	0.03	0.06	(50)

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

Interest and Financing Expenses

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Credit facility interest and financing expenses	49	23	113	220	160	38
Lease interest (cash and non-cash)	5	-	-	14	-	-
Interest and financing expenses	54	23	135	234	160	46
Interest and financing expenses per boe (cash)	0.37	0.18	106	0.36	0.37	(3)

Interest and financing expenses totaled \$54,000 and \$234,000 in the three months and year ended December 31, 2019, respectively, compared to \$23,000 and \$160,000 in the same periods of 2018. The increase in both periods is due to higher average bank debt, higher interest rates on Altura's credit facility and the recognition of lease interest. Altura's average interest rate in 2019 was 5.6 percent, compared to 5.1 percent in 2018.

Share-Based Compensation

(\$000)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Share-based compensation	164	218	(25)	774	1,009	(23)
Capitalized share-based compensation	(48)	(39)	23	(198)	(223)	(11)
Share-based compensation expense	116	179	(35)	576	786	(27)

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation estimates the fair-value of the incentive award based on a Black Scholes model for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. Share-based compensation, net of capitalized amounts, totaled \$116,000 and \$576,000 in the three months and year ended December 31, 2019, respectively, compared to \$179,000 and \$786,000 in the same periods of 2018. The decreases in both periods compared to the same periods in 2018 is mainly due to decreased performance warrant expense as two-thirds of the total performance warrants were fully expensed by July 2019.

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

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

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
DD&A	1,899	1,918	(1)	9,495	6,906	37
DD&A per boe	13.22	14.77	(10)	14.93	16.15	(8)

Altura uses proved and probable reserves to calculate DD&A expense. For the fourth quarter of 2019, DD&A decreased one percent to \$1,899,000 compared to \$1,918,000 in the fourth quarter of 2018. On a per unit basis, DD&A decreased 10 percent to \$13.22 per boe compared to \$14.77 per boe in the fourth quarter of 2018.

For 2019, DD&A increased 37 percent to \$9,495,000 compared to \$6,906,000 in the same period of the prior year. On a per unit basis, DD&A was \$14.93 per boe compared to \$16.15 per boe in 2018.

The decreased DD&A per boe in the three months and year ended December 31, 2019 compared to the same periods in 2018 reflects an increase in the Corporation's proved and probable reserves at a lower finding and development cost than the aggregate amount in 2018.

Impairment

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

At December 31, 2019, Altura evaluated its developed and producing ("D&P") assets and exploration and evaluation ("E&E") assets on a cash generating unit basis for indicators of any potential impairment. As a result of this assessment, the Corporation determined there to be indicators of impairment in its Leduc-Woodbend CGU due to Altura recording a loss on disposition of assets in December 2019 and due to a decline in market capitalization in the second half of 2019. Altura has only one CGU. The impairment test was conducted at December 31, 2019 and no impairment was recognized as the estimated recoverable amount of the Leduc-Woodbend CGU exceeded its carrying value.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved plus probable reserve values from Altura's December 31, 2019 reserve report prepared by its independent reserve evaluator. The estimated recoverable amount (determined to be value in use) was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included value for undeveloped land. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 19 percent.

Deferred Taxes

The Corporation recognized a deferred tax expense of \$33,000 and \$746,000 in the three months and year ended December 31, 2019, respectively, compared to a deferred tax recovery of \$309,000 and a deferred tax expense of \$726,000 in the same periods of 2018. The deferred tax expense in the three months and year ended December 31, 2019 was primarily due to the pre-tax income recorded in the respective periods.

On June 28, 2019, the Alberta government enacted legislation which reduces the Alberta corporate income tax rate from 12 percent to 8 percent over the period of July 1, 2019 through January 1, 2022. As a result, at December 31, 2019, the Corporation recognized a reduction of \$198,000 in its deferred tax liability.

Estimated tax pools at December 31, 2019 are as follows:

(\$000)	
Canadian development expenses	15,361
Canadian exploration expenses	584
Canadian oil and gas property expenses	-
Non-capital losses	11,976
Undepreciated capital cost	11,415
	39,336

Altura has non-capital losses of \$12.0 million at December 31, 2019 that expire between 2025 and 2039.

Net Income and Adjusted Funds Flow

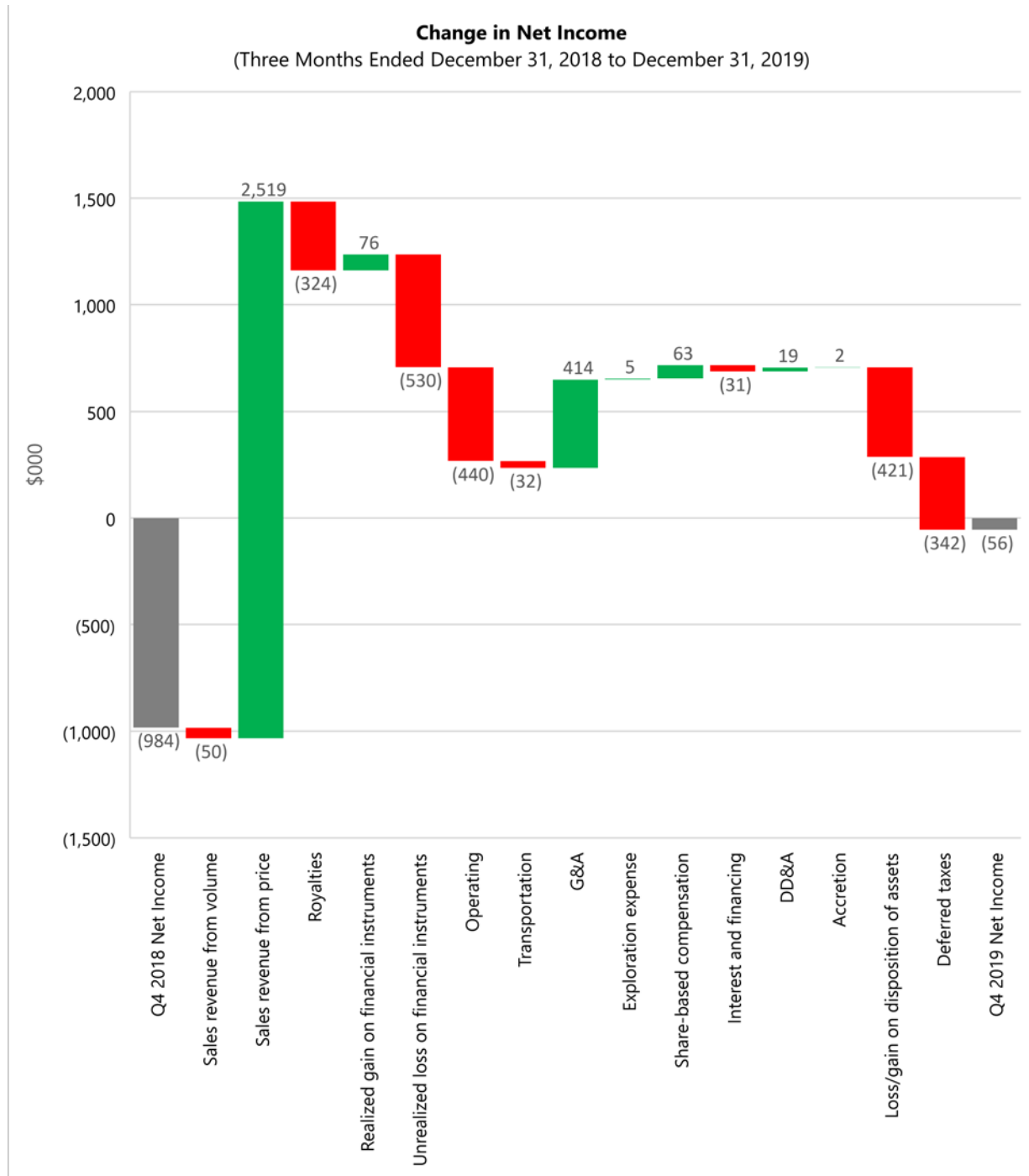
(\$000, except per share amounts and per boe)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Net income (loss)	(56)	(984)	(94)	2,215	2,693	(18)
Per share – basic	-	(0.01)	(100)	0.02	0.02	-
Per share – diluted ⁽¹⁾	-	(0.01)	(100)	0.02	0.02	-
Cash flow from operating activities	3,955	4,200	(6)	12,994	9,787	33
Per share – diluted	0.04	0.04	-	0.12	0.09	33
Adjusted funds flow ⁽²⁾	2,963	826	259	13,994	8,256	70
Per share – diluted ⁽²⁾	0.03	0.01	200	0.13	0.07	86
Adjusted funds flow per boe ⁽²⁾	20.63	6.35	225	22.01	19.31	14

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

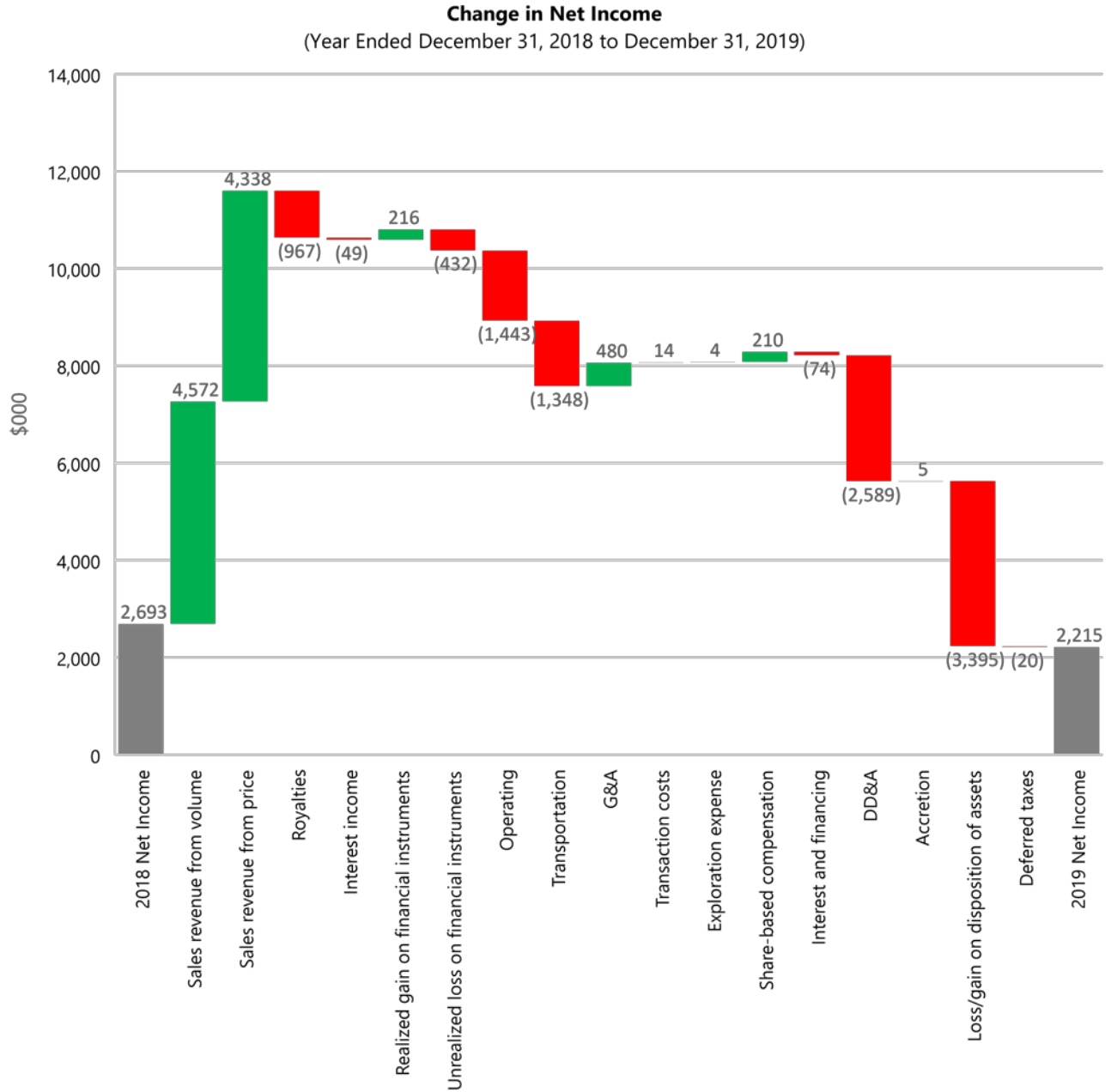
(2) Adjusted funds flow is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

Net Income

In the fourth quarter of 2019, the net loss decreased by \$928,000 to \$56,000 compared to a net loss of \$984,000 in the fourth quarter of 2018. The decreased net loss primarily reflects increased sales revenue from price, lower G&A, and a gain on realized financial instruments, partially offset by an unrealized loss on financial instruments, higher royalties and operating expenses, a loss on disposition of assets and an increased deferred tax expense.

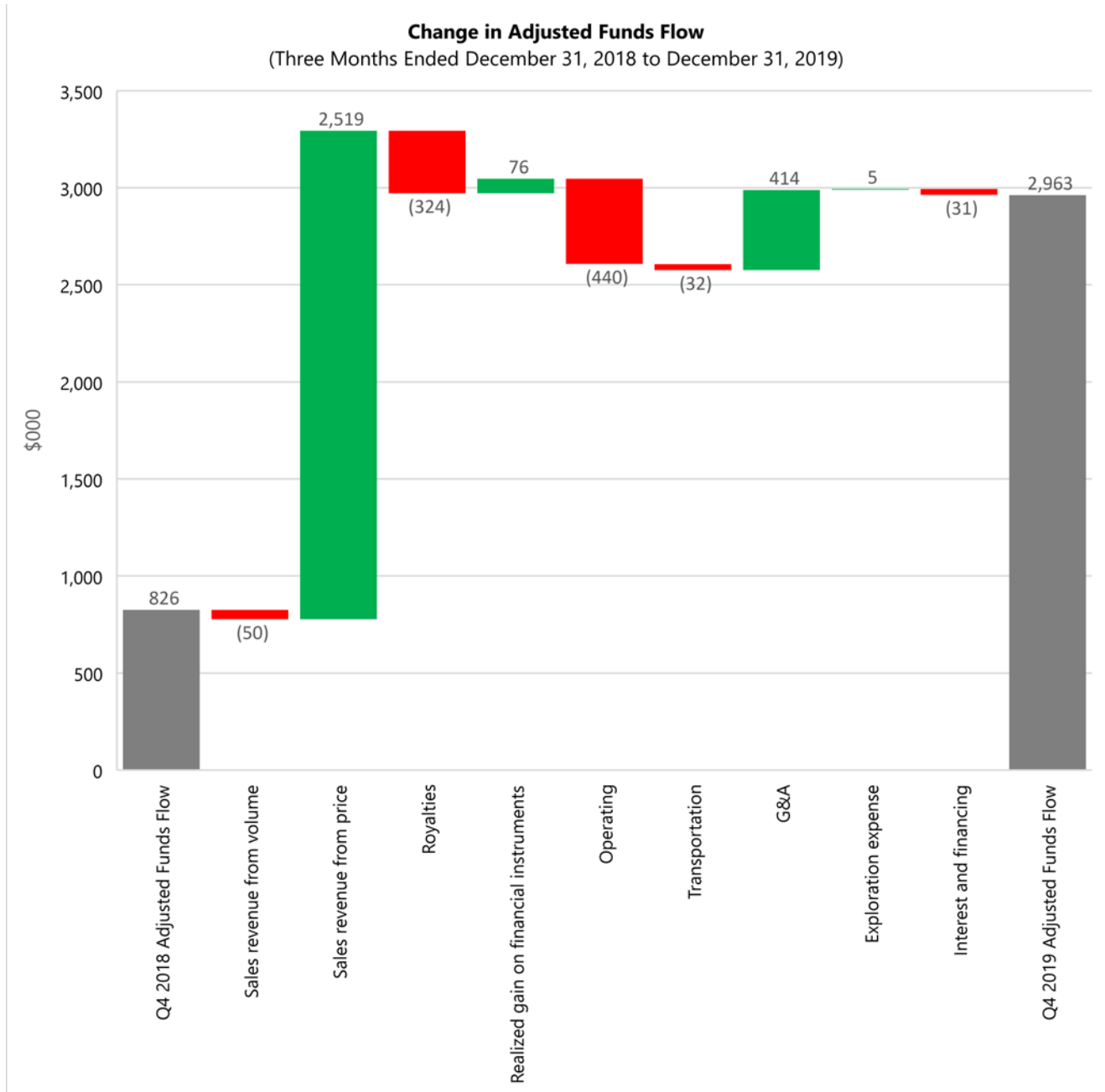


In 2019, net income decreased by \$478,000 to \$2,215,000 compared to \$2,693,000 in 2018. The decreased net income primarily reflects a loss on disposition of assets compared to a gain on disposition of assets in 2018, an unrealized loss on financial instruments, increased royalties, operating, transportation, and DD&A expenses, partially offset by increased sales revenue from production volumes and higher sales prices, a realized gain on financial instruments and lower G&A and share-based compensation.

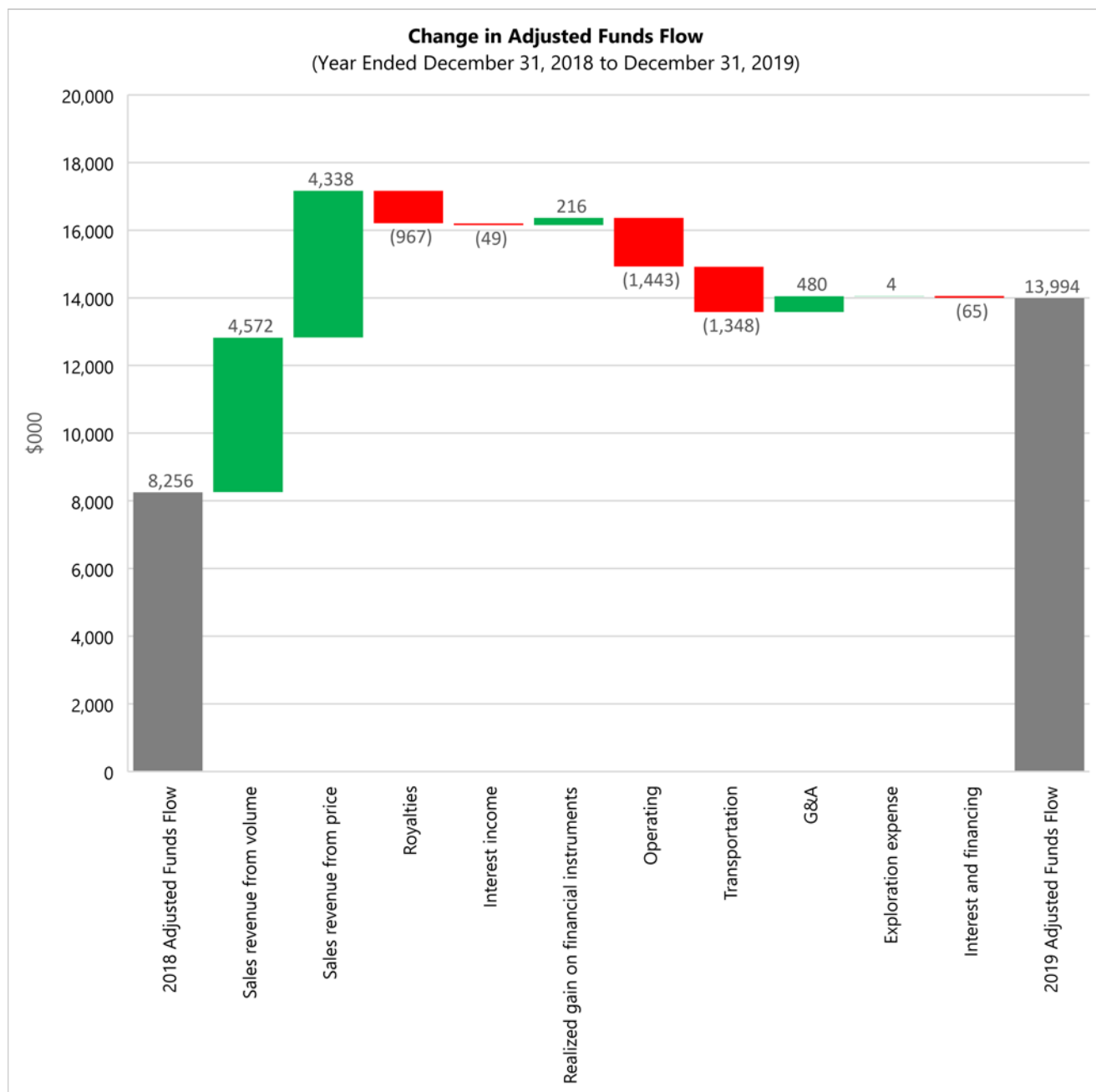


Adjusted Funds Flow

In the fourth quarter of 2019, adjusted funds flow increased by \$2,137,000 to \$2,963,000 compared to \$826,000 in the fourth quarter of 2018. The increase primarily reflects increased sales revenue from sales price and lower G&A, partially offset by increased royalties and operating expenses.



In 2019, adjusted funds flow increased by \$5,738,000 to \$13,994,000 compared to \$8,256,000 in the same period of 2018. The increase primarily reflects increased sales revenue from production volumes and sales prices, and a gain on realized financial instruments and lower G&A, partially offset by increased royalties, operating, and transportation expenses.



Capital Expenditures

(\$000)	Three months ended December 31			Year ended December 31		
	2019	2018	% Change	2019	2018	% Change
Geological and geophysical	29	17	71	70	38	84
Land	36	454	(92)	857	720	19
Drilling and completions	609	1,221	(50)	6,439	23,481	(73)
Workovers	439	56	>500	1,720	826	108
Equipping and tie-in	201	23	>500	1,800	1,366	32
Facilities and pipelines	53	1,146	(95)	1,407	6,384	(78)
Other	161	133	21	591	641	(8)
Capital expenditures	1,528	3,050	(50)	12,884	33,456	(61)
Property acquisitions	-	989	(100)	-	3,597	(100)
Property dispositions	(3,508)	(3)	>500	(3,508)	(27,686)	(89)
Total capital expenditures	(1,980)	4,036	(140)	9,376	9,367	4

In the fourth quarter of 2019, Altura invested \$1.5 million on capital expenditures that included drilling costs related to the Corporation's third horizontal well at Leduc-Woodbend, waterflood pilot costs and workover costs relating to a well clean-out. Additionally, Altura changed the artificial lift system on two wells to improve run-time efficiencies and reduce operating and capital workover events.

In 2019, Altura drilled three and completed two wells at Leduc-Woodend and drilled a vertical exploratory stratigraphic well in a new area called Entice, located south of Strathmore, Alberta. Additionally, the Corporation changed its artificial lift system on 11 wells totaling \$0.8 million of workovers expenditures and \$1.2 million related to equipping expenditures.

In December 2019, Altura closed the 7% Asset Disposition for cash proceeds of \$3.5 million as discussed in the "Asset Disposition" section of this MD&A on page 6.

Decommissioning Liability

At December 31, 2019, Altura's decommissioning liability was \$5.4 million (December 31, 2018 - \$5.8 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been inflated at 1.35 percent (December 31, 2018 - 2.0 percent) and discounted at the Bank of Canada's long-term risk-free bond rate of 1.76 percent (December 31, 2018 - 2.18 percent).

Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The change in liability is due to a revision of the risk-free discount rate from 2.18 percent to 1.76 percent, a revision to the inflation rate from 2.0 percent to 1.35 percent, the 7% Asset Disposition and the transfer of decommissioning liabilities to liabilities associated with assets held for sale, partially offset by new wells drilled in 2019 and accretion expense.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the three months and year ended December 31, 2019, accretion expense totaled \$24,000 and \$104,000 (2018 - \$26,000 and \$109,000), respectively.

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 9.90 at March 7, 2020. The LMR is the ratio of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Corporation to pay a deposit to the AER. Additionally, Altura's revolving operating demand loan includes a covenant requiring the Corporation to maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. Altura's LLR with the AER was 9.90 at March 7, 2020, consistent with its LMR.

CAPITAL RESOURCES AND LIQUIDITY

Net debt as at December 31, 2019 and December 31, 2018 is summarized as follows:

(\$000)	December 31, 2019	December 31, 2018
Current assets	(2,110)	(854)
Current liabilities	3,168	5,674
Working capital deficit	1,058	4,820
Fair value of financial instruments	(432)	-
Current portion of lease liabilities	(48)	-
Current portion of decommissioning liability	(15)	(15)
Net debt ⁽¹⁾	563	4,805
Net debt to annualized adjusted funds flow ⁽¹⁾⁽²⁾	0.05	1.45

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

(2) Refer to Note 17 "Capital Management" in the financial statements regarding net debt to annualized adjusted funds flow.

The Corporation's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. Altura's net debt of \$0.6 million as at December 31, 2019 decreased from \$4.8 million at December 31, 2018 due to adjusted funds flow exceeding capital expenditures in 2019 and from proceeds received from the 7% Asset Disposition. The increased adjusted funds flow compared to the fourth quarter of 2018 resulted in net debt to annualized adjusted funds flow improving to 0.05 times at December 31, 2019 compared to 1.45 times at December 31, 2018.

Working Capital

Altura targets to maintain sufficient unused credit facility capacity to satisfy working capital deficiencies. The Corporation had a working capital deficit of \$1.1 million at December 31, 2019 compared to a working capital deficit of \$4.8 million at December 31, 2018. At December 31, 2019, the major components of Altura's current assets were accounts receivable (59 percent) to be received from its oil and gas marketers in respect to December 2019 production and the contract asset (17 percent) related to the 7% Asset Disposition. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectible. Current liabilities largely consist of trade and joint interest payables (27 percent) and accrued liabilities (46 percent) related to the Corporation's operations and the contract liability (12 percent) related to the 7% Asset Disposition. The Corporation manages its working capital using a combination of its cash flow from operating activities and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash, if any, in a short-term interest-bearing account with its lender.

Credit Facility

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in December 2019, in conjunction with the 7% Asset Disposition, and the new borrowing base was revised to \$9.0 million from the previous \$10 million borrowing base. The Credit Facility is payable on demand and contains customary material adverse change clauses. The Credit Facility bears interest equal to the Lender's prime rate plus 1.75 percent per annum on the outstanding principal, payable monthly.

Altura is subject to certain reporting and financial covenants including:

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

As at December 31, 2019, the working capital ratio as defined was 4.00:1 (December 31, 2018 – 1.29:1) and the Corporation was compliant with the hedging covenant and the LLR covenant.

As at December 31, 2019, the Credit Facility was undrawn (December 31, 2018 - \$2.1 million), however, the Corporation had outstanding letters of credit for \$160,000 (December 31, 2018 - \$160,000). Altura had \$8.6 million of available funding capacity from its Credit Facility at December 31, 2019 (December 31, 2018 - \$1.0 million).

The next review date for the Credit Facility has been scheduled for May 31, 2020 but may be set at an earlier or later date at the sole discretion of the Lender.

Shareholders' Equity

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

At March 18, 2020 the number of common shares, performance warrants and stock options outstanding remain unchanged from December 31, 2019.

Capital Resources

Altura forecasts capital expenditures of \$7.0 million for the first quarter of 2020, funded with forecasted cash flow from operating activities and Altura's Credit Facility. Altura is committed to drill one additional well in the second half of 2020 and management expects to have sufficient liquidity available from its Credit Facility, cash flow from operating activities and proceeds from closing the second transaction of Altura's December 2019 asset disposition as discussed in the "Asset Disposition" section of this MD&A on page 6.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

Altura also has contractual obligations and commitments at December 31, 2019 relating to the December 4, 2019 definitive agreement with PrivateCo, which include:

1. Drill, complete and equip or abandon a horizontal well in the Entice area of Alberta by March 31, 2020. Altura fulfilled this commitment in March 2020.
2. Spud a second horizontal well by December 31, 2020. On or before October 30, 2020, Altura and PrivateCo shall meet and review the production information and other data from the first Entice well. If it is mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Entice area. If not mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Leduc-Woodbend area. If the second well is drilled in the Entice area, PrivateCo will pay 7.0 percent of well costs and earn a 12.5 percent working interest in the well. If the second well is drilled in the Leduc-Woodbend area, PrivateCo will pay 12.5 percent of well costs and earn a 12.5 percent working interest in the well.
3. Within 10 business days of delivering the second well location notice to PrivateCo, Altura and PrivateCo shall enter into a purchase and sale agreement for the second transaction whereby Altura will divest of an additional 5.5 percent working interest in the Corporation's production, wells, lands and facilities for cash of \$3.5 million. Proceeds will be used to fund the second well.

4. In the event a second well is drilled at Entice and both parties agree to drill a third well at Entice, the agreement provides for a third transaction whereby Altura will divest of an additional 4.0 percent working interest in the Corporation's production, wells, lands and facilities for cash of \$3.0 million. Proceeds would primarily be used to drill a third horizontal well at Entice on or before December 31, 2021. PrivateCo would pay 12.5 percent of well costs and earn a 16.5 percent working interest in the well.

SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
OPERATING								
Average daily production								
Heavy oil (bbls/d)	881	1,150	1,016	1,404	1,044	805	478	547
Light & medium oil (bbls/d)	-	-	-	68	46	51	271	408
Natural gas (Mcf/d)	3,406	3,733	2,914	2,510	1,699	1,128	1,309	1,336
NGLs (bbls/d)	113	108	88	47	38	23	23	37
Total (boe/d)	1,561	1,880	1,591	1,939	1,412	1,067	991	1,215
Average realized sales price								
Heavy oil (\$/bbl)	54.40	55.31	62.83	51.62	25.28	56.59	58.83	45.58
Light & medium oil (\$/bbl)	-	-	-	48.97	51.44	66.74	67.64	51.06
Natural gas (\$/Mcf)	2.70	0.95	1.30	2.06	1.74	1.23	1.32	2.14
NGLs (\$/bbl)	26.64	24.42	24.23	37.16	40.19	51.30	51.68	50.44
Total (\$/boe)	38.50	37.12	43.89	42.71	23.57	48.29	49.87	41.58
(\$/boe)								
Petroleum and natural gas sales	38.50	37.12	43.89	42.71	23.57	48.29	49.87	41.58
Realized gain (loss) on financial instruments	0.53	(0.22)	1.23	-	-	-	-	-
Royalties	(4.43)	(4.20)	(4.08)	(3.98)	(2.40)	(4.57)	(4.69)	(4.54)
Operating expenses	(8.63)	(6.92)	(9.56)	(8.18)	(6.16)	(7.09)	(12.26)	(11.01)
Transportation expenses	(2.45)	(2.93)	(4.92)	(3.70)	(2.45)	(2.17)	(1.70)	(1.65)
Operating netback ⁽¹⁾	23.52	22.85	26.56	26.85	12.56	34.46	31.22	24.38
General and administrative	(2.52)	(2.16)	(2.94)	(2.64)	(5.99)	(4.25)	(5.17)	(4.05)
Exploration expense	-	-	-	(0.12)	(0.04)	(0.21)	-	-
Interest and financing expense (cash)	(0.37)	(0.27)	(0.50)	(0.29)	(0.18)	(0.03)	(0.88)	(0.51)
Interest income	-	-	-	-	-	0.34	0.18	-
Adjusted funds flow per boe ⁽¹⁾	20.63	20.42	23.12	23.80	6.35	30.31	25.35	19.82
FINANCIAL (\$000, except per share)								
Petroleum and natural gas sales	5,531	6,420	6,353	7,453	3,062	4,741	4,497	4,547
Adjusted funds flow ⁽¹⁾	2,963	3,532	3,346	4,153	826	2,977	2,285	2,168
Per share – diluted ⁽¹⁾	0.03	0.03	0.03	0.04	0.01	0.03	0.02	0.02
Cash flow from operating activities	3,955	3,181	3,568	2,290	4,200	831	2,313	2,443
Per share – diluted	0.04	0.03	0.03	0.02	0.04	0.01	0.02	0.02
Net income (loss)	(56)	298	1,044	929	(984)	750	2,750	177
Per share – basic	-	-	0.01	0.01	(0.01)	0.01	0.03	-
Per share – diluted ⁽²⁾	-	-	0.01	0.01	(0.01)	0.01	0.02	-
(\$000)								
Capital expenditures	1,528	3,553	6,350	1,453	3,050	16,717	6,344	7,345
Property acquisitions (dispositions)	(3,508)	-	-	-	986	2,637	(27,712)	-
Total assets	55,053	61,202	59,719	55,704	54,023	54,793	49,957	55,973
Net debt ⁽¹⁾	563	5,130	5,109	2,105	4,805	1,872	(14,761)	8,495
Shareholders' equity	44,856	44,748	44,251	42,983	41,867	42,633	41,643	38,616
Common shares outstanding (000)								
Weighted average for the period - basic ⁽²⁾	108,921	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted ⁽²⁾	109,097	109,517	110,503	110,430	110,260	112,281	110,546	109,133
Shares outstanding, end of period	108,921	108,921	108,921	108,921	108,921	108,921	108,921	108,921

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

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

Quarter over quarter changes in revenue from the first quarter of 2018 are the result of changes in oil and gas volumes sold as well as changes in Altura's average realized price. The decline in production in the second quarter of 2018 is a result of the disposition of assets in east central Alberta and Saskatchewan on May 31, 2018. Production volumes increased in the third

and fourth quarters of 2018 and the first quarter of 2019 with seven new Leduc-Woodbend wells being brought on production in the second half of 2018 and one well being brought on production in the first quarter of 2019. Production volumes declined in the second quarter of 2019 as no new wells were brought on production and Altura had decreased well run-time efficiency due to pump failures. Two wells were brought on production in the third quarter of 2019, increasing average production volumes. Average production volumes declined in the fourth quarter of 2019 from no new wells being brought on production and the 7% Asset Disposition. Realized crude oil prices declined sharply in the fourth quarter of 2018 due to wide Canadian oil differentials but recovered in the first quarter of 2019 as Canadian oil differentials narrowed as a result of the Alberta government mandatory curtailment.

Capital expenditures in the first quarter of 2018 included drilling two wells, pipeline construction costs and facility equipment purchases. In the second and third quarters of 2018, Altura drilled eight wells, completed seven wells and constructed a multi-well battery at Leduc-Woodbend. In the fourth quarter of 2018, Altura's capital investments included one well completion and facility work at the previously commissioned multi-well battery. Capital expenditures in the first three quarters of 2019 included drilling three and completing two horizontal wells at Leduc-Woodbend and one vertical well in a new area. Additionally, capital investment in 2019 included an electrification project at Altura's multi-well battery and associated pad sites, pipeline construction, and a solution gas compressor. In the second, third and fourth quarters of 2019, Altura changed its artificial lift system on 11 wells to improve run-time efficiencies and limit operating and capital workover events. In the fourth quarter of 2019, Altura completed the 7% Asset Disposition for cash of \$3.5 million.

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

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

- estimated recoverable amounts are based on estimated proved plus probable reserves, production rates, oil and gas prices, future costs, discount rates and other relevant assumptions.

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

RISK FACTORS & RISK MANAGEMENT

Altura monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Altura maintains a level of liability, and property insurance, which is believed to be adequate for the Corporation's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

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

See "Forward-Looking Information" in this MD&A and "Risk Factors" in Altura's most recently filed annual information form for additional information.

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

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

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

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

CHANGES IN ACCOUNTING POLICIES

On January 1, 2019, Altura adopted IFRS 16, "Leases" ("IFRS 16"). The Corporation has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial

information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Corporation's financial statements have not been restated. On adoption, Altura elected to use the following practical expedient permitted under the standard:

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

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

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

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

In October 2018, the IASB issued amendments to IFRS 3, "Business Combinations", that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets are concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is not applied, or the test is failed, then the assessment focuses on the existence of a substantive process. Altura has not early adopted the amendment.

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

Adjusted Funds Flow

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

Altura reports adjusted funds flow in total, on a per share basis and on a per boe basis. The Corporation's adjusted funds flow is disclosed in the "Net Income and Adjusted Funds Flow" section of this MD&A on page 19. The following schedule sets out the reconciliation of net income to adjusted funds flow and cash flow from operating activities for the reporting period and the comparable prior period:

(\$000)	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Net income (loss)	(56)	(984)	2,215	2,693
Adjusted for the following non-cash items				
Deferred tax expense	33	(309)	746	726
Depletion, depreciation and amortization	1,899	1,918	9,495	6,906
Accretion of decommissioning liability	24	26	104	109
Share-based compensation	116	179	576	786
Loss (gain) on disposition of assets	417	(4)	417	(2,978)
Lease interest	-	-	9	-
Unrealized loss on financial instruments	530	-	432	-
Transaction costs on acquisition	-	-	-	14
Adjusted funds flow	2,963	826	13,994	8,256
Decommissioning liabilities settled	-	4	-	(17)
Transaction costs on property acquisition	-	-	-	(14)
Transaction costs on property disposition	-	-	-	(411)
Changes in non-cash operating working capital	992	3,370	(1,000)	1,973
Cash flow from operating activities	3,955	4,200	12,994	9,787

Net Debt

Management views net debt as key industry benchmarks and measures to assess the Corporation's financial position and liquidity. Net debt is calculated as current assets, excluding the Fair Value of Financial Instruments less current liabilities, excluding the Fair Value of Financial Instruments, less the current portion of lease liabilities, the current portion of the decommissioning liability, the contract asset. Management has excluded the current portion of the decommissioning liability as this is an estimate based on management's assumptions and subject to volatility based on changes in cost and timing estimates, the risk-free discount rate and inflation rate. Altura's adjusted working capital deficit and net debt are disclosed in the "Liquidity" and "Net Debt" sections of this MD&A on page 25.

Operating Netback

Altura calculates operating netback on a per boe basis as petroleum and natural gas sales plus (minus) realized gain (loss) on financial instruments less royalties, operating and transportation costs. Management feels that operating netback is a key industry benchmark and a measure of performance for Altura that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis. Altura's operating netback is disclosed in the "Operating Netback" section of this MD&A on page 15.

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.

Initial Production Rates

Any references in this MD&A and fourth quarter report to initial production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. Oil and gas formations are inherently unpredictable, particularly in the early stage of their development. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Corporation.

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:

- forecasted capital expenditures of \$7.0 million in the first quarter of 2020;
- forecasted hedging gains in 2020;
- Altura's flexibility to shut-in some or all production while generating positive adjusted funds flow in 2020 from forecasted hedging gains;
- plans to close the second transaction of the Asset Disposition in the second half of 2020;
- plans to drill a horizontal well in the Entice or the Leduc-Woodbend areas before December 31, 2020, with no anticipated net capital outlay by Altura; and
- uncertainty about the spread of the COVID-19 virus and the impact it will have on Altura's operations, the demand for Altura's products, and economic activity in general.

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

- the continued performance of Altura's oil and gas properties in a manner consistent with its past experiences;
- that Altura will continue to conduct its operations in a manner consistent with past operations;
- the return of industry conditions to pre-COVID-19 and OPEC+ price-war levels;
- the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes;
- the accuracy of the estimates of Altura's reserves and resource volumes;
- certain commodity price and other cost assumptions;
- the continued availability of oilfield services; and
- the continued availability of adequate debt and equity financing and cash flow from operations to, among other things, fund its planned expenditures.

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

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

- COVID-19 and the OPEC+ price war, including the duration and impacts thereof;
- changes in commodity prices including, without limitation, as a result of COVID-19 and the OPEC+ price war;
- changes in the demand for or supply of Altura's products; including, without limitation, as a result of COVID-19 and the OPEC+ price war;
- unanticipated operating results or production declines;
- public health crises, such as the recent outbreak of the novel coronavirus (COVID-19) and the related economic disruption that can result in volatility in financial markets, disruption to global supply chains, and the ability to directly and indirectly staff the Corporation's day to day operations;
- changes in tax or environmental laws, royalty rates or other regulatory matters;
- changes in development plans of Altura or by third-party operators of Altura's properties;

- increased debt levels or debt service requirements;
 - inaccurate estimation of Altura's oil and gas reserve and resource volumes;
 - limited, unfavorable or a lack of access to capital or debt markets;
 - increased costs;
 - a lack of adequate insurance coverage;
 - the impact of competitors; and
- certain other risks detailed from time to time in Altura's public documents.

The forward-looking information and statements contained in this MD&A and 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, 2019 and December 31, 2018 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 Professional Accountants appointed by the 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 18, 2020
Calgary, Alberta



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altura Energy Inc.

Opinion

We have audited the consolidated financial statements of Altura Energy Inc. (the "Company"), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Jason Stuart Brown.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 18, 2020

CONSOLIDATED BALANCE SHEETS

As at

(\$000)	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	142	-
Accounts receivable (note 16)	1,819	650
Prepaid expenses and deposits	149	204
	2,110	854
Exploration and evaluation (note 7)	1,170	-
Property and equipment (note 8)	51,574	53,169
Right-of-use assets (notes 4 and 9)	199	-
Total assets	55,053	54,023
LIABILITIES		
Current liabilities		
Bank debt (note 10)	-	2,144
Accounts payable and accrued liabilities	2,305	3,515
Current portion of lease liabilities (notes 4 and 11)	48	-
Current portion of decommissioning liability (note 12)	15	15
Contract liability (note 6)	368	-
Fair value of financial instruments (note 16)	432	-
	3,168	5,674
Lease liabilities (notes 4 and 11)	194	-
Decommissioning liability (note 12)	5,363	5,756
Deferred taxes (note 15)	1,472	726
Total liabilities	10,197	12,156
SHAREHOLDERS' EQUITY		
Share capital (note 13)	37,712	37,712
Performance warrants (note 13e)	2,517	2,176
Contributed surplus	4,377	3,944
Retained earnings (deficit)	250	(1,965)
Total shareholders' equity	44,856	41,867
Total liabilities and shareholders' equity	55,053	54,023
Commitments (note 6)		

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 NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

(\$000, except per share amounts)	2019	2018
REVENUE		
Petroleum and natural gas sales (note 14)	25,757	16,847
Royalties	(2,647)	(1,680)
Interest income	-	49
Realized gain on financial instruments	216	-
Unrealized loss on financial instruments (note 16)	(432)	-
	22,894	15,216
EXPENSES		
Operating	5,248	3,805
Transportation	2,214	866
General and administrative	1,624	2,104
Transaction costs on acquisition	-	14
Exploration expense	21	25
Share-based compensation (note 13)	576	786
Interest and financing charges	234	160
Depletion, depreciation and amortization (notes 8 and 9)	9,495	6,906
Accretion of decommissioning liability (note 12)	104	109
Loss (gain) on disposition of assets (note 6)	417	(2,978)
	19,933	11,797
Income before taxes	2,961	3,419
Deferred tax expense (note 15)	746	726
Net income and comprehensive income	2,215	2,693
Net income per share, (note 13d)		
Basic	0.02	0.02
Diluted	0.02	0.02

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

(\$000)	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2017	37,712	1,605	3,506	(4,658)	38,165
Share-based compensation expense (note 13)	-	469	317	-	786
Share-based compensation capitalized (note 13)	-	102	121	-	223
Net income for the year	-	-	-	2,693	2,693
Balance, December 31, 2018	37,712	2,176	3,944	(1,965)	41,867
Share-based compensation expense (note 13)	-	277	299	-	576
Share-based compensation capitalized (note 13)	-	64	134	-	198
Net income for the year	-	-	-	2,215	2,215
Balance, December 31, 2019	37,712	2,517	4,377	250	44,856

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(\$000)	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	2,215	2,693
Items not involving cash:		
Deferred tax expense (note 15)	746	726
Depletion, depreciation and amortization (notes 8 and 9)	9,495	6,906
Accretion of decommissioning liability (note 12)	104	109
Lease interest (note 11)	9	-
Share-based compensation (note 13)	576	786
Unrealized loss on financial instruments (note 16)	432	-
Loss (gain) on disposition of assets (note 6)	417	(2,978)
Transaction costs on property dispositions (note 6)	-	(411)
Decommissioning liabilities settled (note 12)	-	(17)
Change in non-cash working capital (note 18)	(1,000)	1,973
	12,994	9,787
CASH FLOW USED IN FINANCING ACTIVITIES		
Repayment of bank debt (note 10)	(2,144)	(2,108)
Repayment of principal relating to lease liabilities	(8)	-
	(2,152)	(2,108)
CASH FLOW USED IN INVESTING ACTIVITIES		
Property and equipment expenditures	(11,717)	(32,392)
Exploration and evaluation asset expenditures	(1,167)	(719)
Property acquisitions (note 6)	-	(3,597)
Property dispositions (note 6)	3,508	27,686
Change in non-cash working capital (note 18)	(1,324)	1,343
	(10,700)	(7,679)
CHANGE IN CASH AND CASH EQUIVALENTS	142	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	142	-
Cash interest paid	225	160

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2019 and 2018

1. REPORTING ENTITY

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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 18, 2020.

(b) Basis of Measurement and Principles of Consolidation

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

(c) Functional and Presentation Currency

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

(d) Change in Presentation

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

(e) Use of Estimates and Judgement

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

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.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate as discussed in note 4.

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 reversal timing of temporary differences are based on management estimates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in net 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 measured based on the consideration specified in contracts with customers. Altura recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

Altura evaluates its arrangements with third parties and partners to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if Altura obtains control of the product delivered, which is indicated by Altura having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Altura acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents, if any, 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 net 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 net income (loss).

Gains and losses on disposals of exploration and evaluation assets are determined by comparing the proceeds to the net carrying value of the properties and are recognized in net income.

(f) Property and equipment

Property and equipment, which include 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 net income.

(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, including capitalized decommissioning costs, plus estimated future development costs of proved and probable reserves; 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 costs of disposal or its value in use.

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

Reversals of impairments are recognized when previously recorded impairment losses have decreased or no longer exist. 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 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 suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the greater of fair value less costs of disposal or value in use.

(i) Financial instruments

Amortized Cost

Cash and cash equivalents, if any, accounts receivable, accounts payable and accrued liabilities, the contract liability and bank debt are measured at amortized cost. These classifications are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method.

Fair Value through Profit or Loss ("FVTPL")

Altura may enter into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. All risk management contracts are initially measured at fair value through profit or loss and are subsequently measured at fair value with changes in fair value recorded in net income. The fair values of these derivative instruments are based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

Impairment of Financial Assets

Impairment of financial assets is determined by measuring the assets' expected credit loss. Accounts receivable are due within one year and are not considered to have a significant financing component and a lifetime expected credit loss is measured at the date the accounts receivable are initially recognized.

(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 net income. Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(k) Leases

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

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

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

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

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

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

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

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

(l) 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. Transaction costs associated with a business combination are expensed as incurred.

(m) 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 net income 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.

(n) Per share amounts

Basic per share amounts are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution from dilutive instruments.

(o) 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, renewal fees of the credit facility and leases. Interest income is recognized as it is earned.

(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.

4. CHANGES IN ACCOUNTING POLICIES

Newly Adopted Accounting Policy

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

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

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

Reconciliation of Commitments to Lease Liabilities

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

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

The additional disclosures required by IFRS 16 are detailed in notes 3, 9 and 11.

Future Changes in Accounting Policies

In October 2018, the IASB issued amendments to IFRS 3, "Business Combinations", that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets are concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is not applied, or the test is failed, then the assessment focuses on the existence of a substantive process. Altura has not early adopted the amendment.

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, contract liability and bank debt

The fair value of cash and cash equivalents, if any, accounts receivable, deposits, accounts payable and accrued liabilities, the contract liability and bank debt are estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2019 and December 31, 2018, the fair value of these balances approximated their carrying value due to their short term to maturity. The Corporation's bank debt 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) 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 AND DISPOSITIONS

December 4, 2019 Asset Disposition

On December 4, 2019, Altura entered into a definitive agreement with an unrelated third party ("PrivateCo") for the sale of a 12.5 percent working interest in the Corporation's production, wells, lands and facilities for cash of \$7.0 million through two transactions.

The first transaction closed on December 4, 2019, whereby Altura divested a 7.0 percent working interest for cash of \$3,508,000 (the "7% Asset Disposition"). The agreement provides that Altura will pay PrivateCo's 7.0 percent interest in a well to be drilled by March 31, 2020 and a 7.0 percent interest in the completion of an additional well (the "Contract Liability"). Altura estimates the Contract Liability to be \$368,000 as at December 31, 2019.

Altura recorded \$85,000 to E&E asset dispositions, \$3,942,000 to D&P asset dispositions and reduced the decommissioning liability by \$470,000 associated with the 7% Asset Disposition and recorded a loss on disposition of \$417,000 for the year ended December 31, 2019.

The agreement committed Altura to the following:

1. Drill, complete and equip or abandon a horizontal well in the Entice area of Alberta by March 31, 2020. Altura fulfilled this commitment in March 2020.
2. Spud a second horizontal well by December 31, 2020. On or before October 30, 2020, Altura and PrivateCo shall meet and review the production information and other data from the first Entice well. If it is mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Entice area. If not mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Leduc-Woodbend area. If the second well is drilled in the Entice area, PrivateCo will pay 7.0 percent of well costs and earn a 12.5 percent working interest in the well. If the second well is drilled in the Leduc-Woodbend area, PrivateCo will pay 12.5 percent of well costs and earn a 12.5 percent working interest in the well.
3. Within 10 business days of delivering the second well location notice to PrivateCo, Altura and PrivateCo shall enter into a purchase and sale agreement for the second transaction whereby Altura will divest of an additional 5.5 percent working interest in the Corporation's production, wells, lands and facilities as at that date for cash of \$3.5 million. Proceeds will be used to fund the second well.
4. In the event a second well is drilled at Entice and both parties agree to drill a third well at Entice, the agreement provides for a third transaction whereby Altura will divest of an additional 4.0 percent working interest in the Corporation's production, wells, lands and facilities as at that date for cash of \$3.0 million. Proceeds would primarily be used to drill a third horizontal well at Entice on or before December 31, 2021. PrivateCo would pay 12.5 percent of well costs and earn a 16.5 percent working interest in the well.

December 21, 2018 Asset Acquisition

On December 21, 2018 Altura closed the acquisition of a producing petroleum and natural gas asset in the Leduc-Woodbend area of Alberta for cash consideration of \$1.0 million. The acquisition was completed to increase Altura's working interest in certain assets and to further its growth strategy in the Leduc-Woodbend area. The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired, and the liabilities assumed were recorded at fair value.

The acquired asset's contribution to revenues and operating income since December 21, 2018 is insignificant. Had the acquisition closed on January 1, 2018, estimated pro forma revenues would have been \$17.6 million and estimated income before taxes would have been \$3.6 million for the year ended December 31, 2018. The pro forma revenues and net income before taxes are estimates and may not be representative of the results had the acquisitions actually occurred on January 1, 2018.

August 2018 Asset Disposition

In August 2018, the Corporation divested a non-core property with a net book value of \$nil for \$10,000. Altura reduced the decommissioning liability by \$129,000 and recorded a gain of \$139,000 on the disposition in the year ended December 31, 2018.

July 31, 2018 Asset Acquisition

On July 31, 2018 Altura closed the acquisition of a producing petroleum and natural gas asset in the Leduc-Woodbend area of Alberta for cash consideration of \$2.6 million. The acquisition was completed to further Altura's growth strategy in the Leduc-Woodbend area. The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired, and the liabilities assumed were recorded at fair value.

The asset acquired has contributed revenues of \$501,000 and operating income of \$54,000 since July 31, 2018. Had the acquisition closed on January 1, 2018, estimated pro forma revenues would have been \$17.9 million and estimated net income before taxes would have been \$3.7 million for the year ended December 31, 2018. The pro forma revenues and income before taxes are estimates and may not be representative of the results had the acquisitions actually occurred on January 1, 2018.

May 31, 2018 Asset Disposition

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets (the "Provost Disposition"), to an unrelated third party, in east central Alberta and Saskatchewan, which included the Eyehill, Eyehill South, Macklin, Wildmere, Killam and Provost Minor areas (the "Disposed Assets"). Consideration for the Disposed Assets totaled \$27,265,000 of cash, net of customary post-closing adjustments and transaction costs of \$411,000. Altura recorded \$1,071,000 to Exploration and Evaluation ("E&E") asset dispositions, \$29,325,000 to Developed and Producing ("D&P") asset dispositions and reduced the decommissioning liability by \$5,970,000 associated with the Disposed Assets. The Corporation recorded a gain of \$2,839,000 on the Provost Disposition in the year ended December 31, 2018.

7. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2017	4,517
Additions	719
Acquisition	603
Disposition	(1,071)
Transfer to property and equipment (note 5)	(4,768)
Balance, December 31, 2018	-
Additions	1,224
Dispositions	(85)
Change in decommissioning costs	31
Balance, December 31, 2019	1,170

E&E assets consist of the Corporation's projects that have yet to be established as technically feasible and commercially viable. Additions represent Altura's share of costs incurred on E&E assets during the periods. E&E asset additions in the year ended December 31, 2019, include land costs, geological and geophysical costs and drilling costs related to a vertical stratigraphic well that was drilled and logged in a new area called Entice, south of Strathmore, Alberta. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$209,000 in the year ended December 31, 2019 (2018 – \$nil).

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, 2017	62,100	48	62,148
Additions	32,830	130	32,960
Acquisitions	3,983	-	3,983
Dispositions	(47,622)	-	(47,622)
Transfers from E&E assets (note 4)	4,768	-	4,768
Change in decommissioning costs	4,145	-	4,145
Balance, December 31, 2018	60,204	178	60,382
Additions	11,843	15	11,858
Disposition	(5,064)	-	(5,064)
Change in decommissioning costs	(58)	-	(58)
Balance, December 31, 2019	66,925	193	67,118
Depletion, depreciation and impairment			
(\$000)			
Balance, December 31, 2017	(18,579)	(25)	(18,604)
Depletion, depreciation and amortization	(6,885)	(21)	(6,906)
Dispositions	18,297	-	18,297
Balance, December 31, 2018	(7,167)	(46)	(7,213)
Depletion, depreciation and amortization	(9,420)	(33)	(9,453)
Disposition	1,122	-	1,122
Balance, December 31, 2019	(15,465)	(79)	(15,544)
Carry amounts			
(\$000)			
As at December 31, 2018	53,037	132	53,169
As at December 31, 2019	51,460	114	51,574

Estimated future development costs of \$85.8 million (December 31, 2018 – \$95.5 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$556,000 in the year ended December 31, 2019 (2018 – \$732,000).

Impairment

At December 31, 2019, the Corporation determined there to be indicators of impairment in its Leduc-Woodbend CGU due to Altura recording a loss on disposition of assets in December 2019 and due to a decline in market capitalization in the second half of 2019. Altura has only one CGU. The impairment test was conducted at December 31, 2019 and no impairment was recognized as the estimated recoverable amount of the Leduc-Woodbend CGU exceeded its carrying value.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved plus probable reserve values from Altura's December 31, 2019 reserve report prepared by its independent reserve evaluator. The estimated recoverable amount (determined to be value in use) was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included value for undeveloped land. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 19 percent.

The following table details the forward pricing used in estimating the recoverable amount of Altura's Leduc-Woodbend CGU at December 31, 2019:

	WTI Crude Oil (\$US/bbl) ^(1,2)	Western Canadian Select Crude Oil (\$CAD/bbl) ^(1,2)	Alberta AECO Gas (\$CAD/mmbtu) ^(1,2)	Foreign Exchange (\$US/\$CAD) ⁽¹⁾
2020	61.00	57.57	2.04	0.760
2021	63.75	62.35	2.32	0.770
2022	66.18	64.33	2.62	0.785
2023	67.91	66.23	2.71	0.785
2024	69.48	67.97	2.81	0.785
2025	71.07	69.72	2.89	0.785
2026	72.68	71.49	2.96	0.785
2027	74.24	73.20	3.03	0.785
2028	75.73	74.80	3.09	0.785
2029	77.24	76.43	3.16	0.785
2030	78.79	77.96	3.23	0.785
2031	80.36	79.52	3.29	0.785
2032	81.97	81.11	3.36	0.785
2033	83.61	82.73	3.43	0.785
2034	85.28	84.39	3.49	0.785
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.785

(1) Source: Independent external reserves evaluator. January 1, 2020 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 Corporation performed a sensitivity analysis at December 31, 2019 and determined that a 1 percent increase (decrease) in the discount rate or a 5 percent decrease (increase) in the forecasted combined average realized prices would also not have resulted in an impairment charge as at December 31, 2019.

9. RIGHT-OF-USE ASSETS

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

Cost (\$000)	Total
Balance, January 1 and December 31, 2019 (note 4)	241
Depreciation (\$000)	
Balance, January 1, 2019	-
Depreciation	(42)
Balance, December 31, 2019	(42)
Carry amounts (\$000)	
As at January 1, 2019	241
As at December 31, 2019	199

10. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in December 2019, in conjunction with the Asset Disposition (note 6), and the new borrowing base was revised to \$9.0 million from the previous \$10 million borrowing base. The Credit Facility is payable on demand and contains customary material adverse change clauses. The Credit Facility bears interest equal to the Lender's prime rate plus 1.75 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.75 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

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

Altura is subject to certain reporting and financial covenants including:

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

As at December 31, 2019, the working capital ratio as defined was 4.00:1 (December 31, 2018 – 1.29:1) and the Corporation was compliant with the hedging covenant and the LLR covenant.

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

11. LEASE LIABILITIES

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

(\$000)	As at December 31, 2019
2020	48
2021–2022	111
2023–2024	119
Total lease payments	278
Impact of discounting	(36)
Lease liabilities	242
Payments due within one year	48
Payments due beyond one year	194

The following table reconciles lease liabilities:

(\$000)	Total
Balance, January 1, 2019 (note 4)	241
Lease interest (non-cash)	9
Lease interest (cash)	5
Total cash outflow	(13)
Balance, December 31, 2019	242

12. DECOMMISSIONING LIABILITY

The Corporation's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Altura estimates the total undiscounted and un-escalated amount of cash flows required to settle its decommissioning obligations as at December 31, 2019 to be approximately \$5.6 million (December 31, 2018 – \$5.9 million) with the majority of costs anticipated to be incurred between 2030 and 2038. A risk-free Government of Canada long-term bond discount rate of 1.76 percent (December 31, 2018 – 2.18 percent) and an inflation rate of 1.35 percent (December 31, 2018 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year	5,771	6,578
Additions	274	923
Liabilities disposed	(470)	(6,099)
Liabilities acquired	-	1,055
Change in estimates ⁽¹⁾	(301)	800
Revaluation of liabilities acquired ⁽²⁾	-	2,422
Decommissioning liabilities settled	-	(17)
Accretion	104	109
Balance, end of year	5,378	5,771
Expected to be incurred within one year	15	15
Expected to be incurred beyond one year	5,363	5,756

(1) The change in estimates is due to a change in the discount and inflation rates totaling a credit of \$237,000 (December 31, 2018 - \$153,000 expense) and a change in abandonment and remediation cost estimates and future abandonment dates totaling a credit of \$64,000 (December 31, 2018 - \$647,000 expense).

(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%.

13. 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, 2017, December 31, 2018, and December 31, 2019	108,920,973	37,712

(c) Stock options:

The Corporation has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10 percent of the outstanding shares of Altura and the maximum term of options granted is five years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. As at December 31, 2019 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the years ended December 31, 2019 and 2018.

A summary of the Corporation's outstanding stock options at December 31, 2019 is presented below:

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

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2019 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low (\$)	High (\$)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price (\$)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price (\$)
0.27	0.425	9,770,000	2.3	0.35	7,056,664	1.7	0.33
		9,770,000	2.3	0.35	7,056,664	1.7	0.33

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

	Year ended December 31, 2019	Year ended December 31, 2018
Weighted average fair value of options granted (\$)	0.23	0.22
Risk-free interest rate (%)	1.43	2.17
Expected life (years)	3.5	3.5
Expected volatility (%)	78.1	85.9
Estimated forfeiture rate (%)	5.0	5.0
Expected dividends (\$)	-	-

The Corporation's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the year ended December 31, 2019 was \$433,000 (2018 – \$438,000) of which \$134,000 was capitalized (2018 – \$121,000).

(d) Weighted average common shares:

	Year ended December 31, 2019	Year ended December 31, 2018
Basic	108,920,973	108,920,973
Diluted	109,885,889	110,411,519

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

For the year ended December 31, 2019, 4,200,000 stock options and 9,749,879 performance warrants were excluded from the weighted average number of common shares as they were anti-dilutive (2018 – 2,820,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at December 31, 2019 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2017, December 31, 2018, and December 31, 2019	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, 2019 no performance warrants are exercisable. On the grant date, the weighted average fair value of \$0.27 per performance warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based compensation relating to performance warrants for the year ended December 31, 2019 was \$341,000 (2018 – \$571,000) of which \$64,000 was capitalized (2018 – \$102,000). The fair value of the performance warrants is being expensed over the expected life.

14. REVENUE

The Corporation sells its production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

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

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

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Heavy oil	22,602	11,425
Light & medium oil	300	4,081
Natural gas	1,983	816
Natural gas liquids	872	525
Petroleum and natural gas sales	25,757	16,847

As at December 31, 2019, receivables for revenue were \$1,498,000, which are included in accounts receivable (December 31, 2018 - \$108,000 included in accounts receivable and \$41,000 included in accounts payable and accrued liabilities).

15. 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 before taxes. This difference results from the following items:

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Income before taxes	2,961	3,419
Combined federal and provincial income tax rate	26.5%	27.0%
Computed income tax expense	785	923
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	164	237
Non-deductible expenses	2	2
Change in estimates and other	(7)	(23)
Change in corporate tax rate	(198)	-
Change in unrecognized deferred tax asset	-	(413)
Deferred tax expense	746	726

Altura's combined federal and provincial income tax rate declined to 26.5 percent in 2019 as a result of the Alberta corporate income tax rate decreasing from 12 percent to 11.5 percent for 2019.

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

(\$000)	December 31, 2019	December 31, 2018
Deferred income tax liabilities:		
Property and equipment and E&E assets	(5,695)	(5,566)
ROU assets	(47)	-
Deferred income tax assets:		
Decommissioning liability	1,237	1,558
Fair value of financial instruments	108	-
Lease liabilities	57	-
Contract liability	92	-
Non-capital losses	2,754	3,258
Share issue costs	-	14
Other	22	10
Deferred tax liability	(1,472)	(726)

Altura has non-capital losses of \$12.0 million at December 31, 2019 that expire between 2025 and 2039.

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

The majority of the credit exposure on accounts receivable at December 31, 2019, pertains to revenue for accrued December 2019 production volumes and receivables from joint interest partners. Altura primarily transacts with five oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. A significant portion of Altura's accounts receivable is carried by four marketing companies with sound financial positioning. At December 31, 2019, 25 percent, 21 percent, 16 percent and 11 percent of total outstanding accounts receivable pertains to these companies. Additionally, at December 31, 2019, 10 percent of total outstanding accounts receivable pertains to one joint interest partner. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at December 31, 2019. For the year ended December 31, 2019, the Corporation received approximately 26 percent, 20 percent and 20 percent of its revenue from three marketing companies (2018 – 28 percent, 20 percent and 11 percent of its revenue from three marketing companies).

At December 31, 2019, the Corporation's trade receivables have been aged as follows:

As at (\$000)	December 31, 2019	December 31, 2018
Current	1,674	263
31 – 60 days	7	151
61 – 90 days	85	47
> 90 days	53	189
Allowance for doubtful accounts	-	-
Total	1,819	650

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

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, access to these external sources may change at any time and are subject to numerous factors. In addition, risk management contracts such as derivative financial instruments may be used to manage liquidity. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the credit facility, if any, are 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.

Altura manages the risks associated with changes in commodity prices by entering into risk management contracts. At December 31, 2019, Altura held the following crude oil contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at December 31, 2019 (\$000)
Jan 1/20—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00	194
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20	(182)
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)	(134)
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD \$43.75	(240)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD \$71.35	(48)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD (\$24.00)	(22)
						(432)

At December 31, 2019, the crude oil contracts were fair valued with a liability of \$432,000 (December 31, 2018 - \$nil) recorded on the balance sheet.

If the forward price curves for Western Canadian Select increase or decrease by 10 percent, it is estimated that Altura's income before taxes would change by approximately \$565,000. The commodity price assumptions are based on management's assessment of reasonably possible changes in oil prices that could occur in the future. The sensitivity is hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The result of the sensitivity is not predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

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, 2019.

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, 2019.

If interest rates were to increase or decrease by one percent, it is estimated that Altura's net income would change by approximately \$28,000 for the year ended December 31, 2019 using the average monthly bank debt outstanding under Altura's Credit Facility for the year ended December 31, 2019.

17. CAPITAL MANAGEMENT

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

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

Annualized Adjusted Funds Flow

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

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

(\$000)	Three months ended December 31	
	2019	2018
Net loss	(56)	(984)
Adjusted for the following non-cash items		
Deferred tax expense (recovery)	33	(309)
Depletion, depreciation and amortization	1,899	1,918
Accretion of decommissioning liability	24	26
Share-based compensation	116	179
Loss (gain) on disposition of assets	417	(4)
Unrealized loss on financial instruments	530	-
Quarterly adjusted funds flow	2,963	826
Annualized adjusted funds flow	11,852	3,304

Net Debt

Management views net debt as a key industry benchmark and measure to assess the Corporation's financial position and liquidity. Net debt is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to similarly titled measures of other companies where similar terminology is used.

Net debt as at December 31, 2019 and 2018 is summarized as follows:

(\$000)	December 31, 2019	December 31, 2018
Current assets	(2,110)	(854)
Current liabilities	3,168	5,674
Working capital deficit	1,058	4,820
Fair value of financial instruments in current liabilities	(432)	-
Current portion of lease liabilities	(48)	-
Current portion of decommissioning liability	(15)	(15)
Net debt	563	4,805

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

The Corporation monitors this ratio and endeavors to maintain it at, or below, 1:1 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, the Corporation's ratio of net debt to annualized adjusted funds flow was 0.05:1 at December 31, 2019.

	December 31, 2019	December 31, 2018
Net debt (\$000)	563	4,805
Annualized adjusted funds flow (\$000)	11,852	3,304
Net debt to annualized adjusted funds flow (times)	0.05	1.45

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

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Provided by (used in):		
Accounts receivable	(1,169)	1,647
Prepaid expenses and deposits	55	(100)
Accounts payable and accrued liabilities	(1,210)	1,703
Prepaid expenses acquired in acquisition	-	66
	(2,324)	3,316
Provided by (used in):		
Operating activities	(1,000)	1,973
Investing activities	(1,324)	1,343
	(2,324)	3,316

19. PERSONNEL EXPENSES

The aggregate compensation of key management personnel was as follows:

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and benefits	1,661	1,560
Share-based compensation	764	1,001
	2,425	2,561
Capitalized portion of total compensation	(765)	(732)
	1,660	1,829

Altura's key management personnel include 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

David Burghardt
President & Chief Executive Officer
Altura Energy Inc.

John Chambers
Independent Businessman

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

Brian Lavergne
President & Chief Executive Officer
Storm Resources Ltd.

Robert Maitland
Independent Businessman

John McAleer
Managing Director
Palisade Capital Management Ltd.

OFFICERS

David Burghardt
President & Chief Executive Officer

Tavis Carlson
Vice President, Finance & Chief Financial Officer

Jeff Mazurak
Vice President, Operations

D. Robert Pinckston
Vice President, Exploration

Craig Stayura
Vice President, Land

Travis Stephenson
Vice President, Engineering

AUDITORS

KMPG LLP
Calgary, Alberta

BANKERS

ATB Financial
Calgary, Alberta

LEGAL COUNSEL

Lawson Lundell LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK TRADING

TSX Venture Exchange
Trading Symbol: **ATU**

