

2016 SECOND QUARTER REPORT



OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Six months ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
OPERATING					
Average daily production					
Crude oil (bbls/d)	271	341	282	306	318
Natural gas (mcf/d)	289	348	238	319	253
NGLs (bbls/d)	4	7	3	5	4
Total (boe/d)	323	405	325	364	365
Average realized prices					
Crude oil (\$/bbl)	44.21	28.04	58.24	35.19	50.20
Natural gas (\$/mcf)	1.53	1.96	2.83	1.76	2.91
NGLs (\$/bbl)	52.30	24.26	86.22	35.02	55.32
Total (\$/boe)	39.08	25.65	53.44	31.60	46.48
NETBACK AND COST (\$/boe)					
Petroleum and natural gas sales	39.08	25.65	53.44	31.60	46.48
Royalties	(2.06)	(1.33)	(2.22)	(1.65)	(2.04)
Operating	(11.45)	(9.67)	(12.92)	(10.46)	(10.90)
Transportation	(2.88)	(2.81)	(3.14)	(2.84)	(2.85)
Operating netback ⁽¹⁾	22.69	11.84	35.16	16.65	30.69
General and administrative (excluding severance costs)	(11.77)	(9.65)	(8.20)	(10.59)	(7.39)
Severance costs included in G&A ⁽³⁾	(5.88)	-	-	(2.61)	-
Interest and financing expense	(0.70)	(0.18)	(0.22)	(0.41)	(0.17)
Exploration expense	(1.01)	-	-	(0.45)	-
Interest income	1.79	1.19	-	1.46	0.01
Corporate netback ⁽¹⁾	5.12	3.20	26.74	4.05	23.14
FINANCIAL (\$000, except per share amounts)					
Petroleum and natural gas sales	1,149	946	1,580	2,095	3,069
Funds from operations ⁽¹⁾	149	117	790	266	1,528
Per share – basic and diluted ⁽¹⁾	-	-	0.02	-	0.04
Cash flow from (used in) operating activities	28	(137)	715	(109)	1,393
Per share – basic and diluted	-	-	0.02	-	0.04
Income (loss)	(692)	(753)	203	(1,445)	564
Per share – basic and diluted	(0.01)	(0.01)	0.01	(0.01)	0.02
Capital expenditures and acquisitions	2,294	204	969	2,498	1,357
Working capital surplus (deficit)	20,011	22,199	(515)	20,011	(515)
Common shares outstanding (000) ⁽²⁾					
End of period – basic	108,921	108,921	34,704	108,921	34,704
Weighted average for the period – basic	108,921	108,921	35,074	108,921	35,181
Weighted average for the period – diluted	108,921	108,921	35,074	108,921	35,181

(1) Funds from operations, funds from operations per share, corporate netback, and operating netback do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used they should be given careful consideration by the reader. Refer to the Non-GAAP Measures paragraph in the Advisories section of the MD&A.

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

(3) Altura incurred \$173,000 (\$5.88 per boe and \$2.61 per boe for the three and six months ended June 30, 2016) of one-time severance costs in the second quarter of 2016 associated with the termination of a former officer of the Corporation.

PRESIDENT'S MESSAGE

SECOND QUARTER 2016 HIGHLIGHTS

- Capital expenditures totaled \$2.3 million with investment focused on the Klein North area where Altura drilled two gross (2.0 net) wells that were equipped and brought on-stream in July. A third well was drilled subsequent to June 30, 2016 fulfilling the Corporation's October 31, 2016 drilling commitment deadline.
- Production volumes averaged 323 boe per day, 20 percent lower than the first quarter of 2016 average of 405 boe per day and consistent with the second quarter of 2015. The 82 boe per day decline from the first quarter of 2016 is a result of expected natural production declines, estimated at 44 boe per day, coupled with operational downtime, a third party turnaround and workover activities, estimated at 38 boe per day.
- Funds from operations were \$149,000, up 27 percent from the first quarter of 2016 and down 81 percent from the second quarter of 2015 as a result of significantly lower realized crude oil and natural gas prices. Funds from operations were impacted by a severance payment of \$173,000 and an exploration expense of \$30,000 in the quarter. Excluding these one-time expenses, funds from operations would have been \$352,000.
- Operating netback was \$22.69 per boe, up 92 percent from the first quarter of 2016 and down 35 percent from the first quarter of 2015 as a result of the decline in the average realized sales prices.
- Exited the quarter with a Liability Management Rating ("LMR") of 7.0 with the Alberta Energy Regulator.
- Ended the quarter with a \$20.0 million working capital surplus and no debt.

OPERATIONAL UPDATE

Altura initiated its 2016 drilling program in June with two gross (2.0 net) horizontal wells drilled and completed in the Sparky Formation of the Upper Mannville. The 100 percent working interest wells were put on pump and brought on production on July 4, 2016. Individual production rates from the wells over the last 14 days of production have averaged 121 barrels per day of 26° API oil with 70 mcf per day of natural gas, or 133 boe per day. These rates exceed Altura's type curve initial production rate for wells in the Klein North pool of 120 boe per day. Altura's current production is greater than 500 boe per day based on field estimates for the first week of August 2016.

Total drilling, completion, equipping and tie-in costs for the two Klein North wells are estimated to average \$965,000 per well, which is \$133,000 or 12 percent less than the Klein North well that Altura drilled in November 2015. The decreased cost is a result of decreased drilling days, lower service costs and multi-well cost efficiencies. The November 2015 offsetting well was drilled in 5.4 days and the Corporation improved on this by reducing the drilling time to 4.4 days and 3.1 days for the two wells drilled in June.

Altura achieved second quarter production of 323 boe per day, down 82 boe per day from the first quarter of 2016 as a result of natural production declines from minimal 2016 capital development prior to June, coupled with operational downtime, a third party turnaround and workover activities. The additional workovers and the lower production negatively impacted the Corporation's per unit operating and transportation costs, resulting in a 15 percent increase from the first quarter of 2016.

Subsequent to June 30, 2016, the Corporation drilled its third well in 2016, which has fulfilled the Corporation's drilling commitment.

OUTLOOK

The 2016 budget, including drilling, completion, equipping and tie-in capital of \$8.7 million remains unchanged from the budget announced on March 31, 2016. Three (3.0 net) wells have been drilled to date and four (3.4 net) wells remain to be drilled. The program is forecasted to grow overall production to exit 2016 at 770 boe per day, 90 percent higher than the first quarter of 2016 average of 405 boe per day.

Management intends to continuously monitor commodity prices and may at any time adjust the 2016 capital program if oil prices deteriorate or strengthen. This will ensure that Altura maintains a strong balance sheet and that returns on invested capital exceed the Corporation's hurdle rate.

Altura is currently pursuing conventional crude oil plays in the Western Canadian Sedimentary Basin with an initial focus in central Alberta targeting the shallow, multi-zone, oil-weighted section of the Upper Mannville. This area is expected to generate strong cash netbacks with competitive drilling and completion costs for these shallow targets, thereby delivering

attractive economics in the context of the current commodity price environment. To diversify and strengthen the long-term profitability of the Corporation, Altura is also evaluating other oil-prone regions that demonstrate these attributes.

Looking ahead, with a cash position of \$20.0 million and no debt at the end of the second quarter of 2016, the Corporation is well-positioned to:

- Profitably grow corporate production and evaluate recently acquired lands by drilling select horizontal wells from its drilling inventory;
- Establish the Corporation in a second organic play concept by acquiring strategic parcels of land during a period when land prices are at a 20-year low; and
- Capitalize on strategic acquisition opportunities with the advantage provided by its strong LMR which gives the Corporation flexibility in respect to acquisition targets having lower LMR's.

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

Respectfully,

(signed)

David Burghardt
President and Chief Executive Officer

August 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Altura Energy Inc. (the "Corporation" or "Altura") is dated August 10, 2016 and should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2016, the audited consolidated financial statements and related notes for the year ended December 31, 2015, as well as the Corporation's Annual Information Form that is filed on SEDAR at www.sedar.com. These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, in Canadian dollars, except where indicated otherwise.

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

DESCRIPTION OF BUSINESS

Altura is a junior oil and gas exploration, development and production company with focused operations in east central Alberta. Additional information regarding Altura is available on SEDAR and on its website at www.alturaenergy.ca. Altura's common shares are listed for trading on the TSX Venture Exchange under the symbol "ATU".

RESULTS OF OPERATIONS

Production

	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Crude oil (bbls/d)	271	282	(4)	306	318	(4)
Natural gas (mcf/d)	289	238	21	319	253	26
Natural gas liquids (bbls/d)	4	3	33	5	4	25
Total (boe/d)	323	325	(1)	364	365	-
Oil and natural gas liquids % of production	85	88	(3)	85	88	(3)

Production volumes averaged 323 boe per day in the second quarter of 2016, which is consistent with the second quarter of 2015. On a year-to-date basis production volumes were 364 boe per day compared to 365 boe per day in 2015. Two gross (2.0 net) wells were drilled in in the Klein North area in June 2016 and commenced production in July 2016.

Production volumes in the second quarter of 2016 decreased 82 boe per day from the first quarter of 2016 as a result of natural production declines, estimated at 44 boe per day, coupled with operational downtime, a third party turnaround and workover activities, estimated at 38 boe per day.

Revenue

(\$000)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Crude oil	1,089	1,497	(27)	1,959	2,894	(32)
Natural gas	40	61	(34)	102	133	(23)
Natural gas liquids	20	22	(9)	34	42	(19)
Petroleum and natural gas sales	1,149	1,580	(27)	2,095	3,069	(32)

Petroleum and natural gas sales for the second quarter of 2016 decreased 27 percent to \$1.1 million compared to \$1.6 million in the second quarter of 2015. The decrease of \$431,000 consists of \$393,000 attributed to lower realized prices, and \$38,000 attributed to lower crude oil production volumes. Year-to-date, petroleum and natural gas sales decreased 32 percent to \$2.1 million compared to \$3.1 million in the same period of 2015. The decrease of \$974,000 consists of \$922,000 attributed to lower realized prices and \$52,000 attributed to lower crude oil production volumes.

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

(\$)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Average Benchmark Prices						
WTI crude oil (US\$/bbl) ⁽¹⁾	45.59	57.94	(21)	39.52	53.29	(26)
WCS differential (US\$/bbl) ⁽²⁾	(13.30)	(11.55)	15	(13.99)	(13.15)	6
US\$/Cdn\$ exchange rate	0.776	0.813	(5)	(0.752)	0.810	(7)
WCS (Cdn\$/bbl)	41.61	57.05	(27)	33.95	49.59	(32)
AECO daily spot (\$/mmbtu) ⁽³⁾	1.40	2.65	(47)	1.61	2.70	(40)
Average Realized Prices						
WCS (Cdn\$/bbl)	41.61	57.05	(27)	33.95	49.59	(32)
Altura realized differential (\$/bbl)	2.60	1.19	118	1.24	0.61	103
Crude oil (\$/bbl)	44.21	58.24	(24)	35.19	50.20	(30)
Natural gas (\$/mcf)	1.53	2.83	(46)	1.76	2.91	(40)
Natural gas liquids (\$/bbl)	52.30	86.22	(39)	35.02	55.32	(37)
Average realized price (\$/boe)	39.08	53.44	(27)	31.60	46.48	(32)

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

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

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

For the second quarter and the first six months of 2016 Altura's realized crude oil price fell by 24 percent and 30 percent, respectively, as compared to the comparable prior periods. This price decrease is primarily attributed to the decrease in WTI over the same time periods and the effect of a widening differential between WTI and WCS crude oil prices, partially offset by a weakened Canadian dollar.

Natural gas prices weakened further in the three months ended June 30, 2016. Altura's average realized natural gas prices for the three and six months ended June 30, 2016 of \$1.53 per Mcf and \$1.76 per Mcf, respectively, were 46 percent and 40 percent lower than the comparable prior periods as a result of North American natural gas supply exceeding demand.

Royalties

(\$000, except % and per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Crown royalties	55	60	(8)	98	121	(19)
Freehold and overriding royalties	6	6	-	12	14	(14)
Royalty expense	61	66	(8)	110	135	(19)
Royalty expense as a % of sales	5.3%	4.2%	26	5.2%	4.4%	18
Royalty expense per boe	2.06	2.22	(7)	1.65	2.04	(19)

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

In the second quarter of 2016 and the first six months of 2016, royalties as a percentage of sales increased 26 percent and 18 percent from the comparative prior periods. Crown royalties are based on a sliding scale with sensitivity to price, total volume produced and royalty incentives. The increase in royalties as a percentage of sales is a result of the March 2016 expiration of the New Well Royalty Rate incentive on three gross (3.0 net) wells drilled in 2014.

Altura estimates its total royalty expense as a percentage of sales to average approximately 8 percent for the second half of 2016.

In 2016 the provincial government of Alberta announced the key highlights of a proposed Modernized Royalty Framework ("MRF") that will be effective on January 1, 2017. These highlights include providing royalty incentives for the efficient development of conventional crude oil, natural gas and NGL resources, no changes to the royalty structure of wells drilled prior to 2017 for a 10-year period from the royalty program's implementation date, the replacement of royalty credits and holidays on conventional wells by a revenue minus cost framework with a post-payout royalty rate based on commodity prices, the reduction of royalty rates for mature wells and a neutral internal rate of return for any given play compared to the current royalty framework. Details of the MRF calibration formulas have been released and more specific information will be provided by the provincial government in the coming months. From the information and industry analysis to date, Altura concludes the MRF will not have a significant impact to the Corporation's well investment economics over a reasonable commodity price range as expected in the foreseeable future.

Operating and Transportation Costs

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Operating	337	382	(12)	695	720	(3)
Transportation	85	93	(9)	189	188	1
Operating and transportation	422	475	(11)	884	908	(3)
Operating per boe	11.45	12.92	(11)	10.46	10.90	(4)
Transportation per boe	2.88	3.14	(8)	2.84	2.85	-
Operating and transportation per boe	14.33	16.05	(11)	13.30	13.75	(3)

For the three and six months ended June 30, 2016 operating and transportation costs were \$14.33 and \$13.30 per boe, respectively. The decreases of 11 percent and 3 percent when compared with the same periods in 2015 were a result of negotiating cost reductions with key service providers. Partially offsetting the decreased operating costs were increased workover expenses totaling \$55,000 (\$1.87 per boe) in the second quarter of 2016, compared to workover expenses of \$44,000 (\$1.49 per boe) in the same period of 2015.

Altura estimates its operating and transportation costs to average approximately \$12.50 per boe for the second half of 2016.

General and Administrative ("G&A") Expenses

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Gross G&A (including severance)	590	295	100	998	584	71
Overhead and capital recoveries	(71)	(52)	37	(123)	(96)	28
Net G&A expenses	519	243	114	875	488	79
Net G&A per boe	17.65	8.20	115	13.20	7.39	79

Net G&A expenses totaled \$519,000 and \$875,000 for the three and six months ended June 30, 2016 respectively, which increased significantly from the same periods in 2015. The increase in G&A expenses is primarily due to the appointment of the new management team, which added additional salary expense and other employment related costs necessary to the growth of the Corporation. Additionally, Altura incurred \$173,000 (\$5.88 per boe) of severance costs in the second quarter of 2016 associated with the termination of a former officer of the Corporation. Excluding the one-time severance costs, G&A would be \$11.77 per boe and \$10.59 per boe for the three and six months ended June 30, 2016.

Interest and Financing Expenses

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Interest and financing expenses	21	6	250	27	11	145
Interest and financing expenses per boe	0.70	0.22	218	0.41	0.17	141

Interest and financing expenses in the three and six months ended June 30, 2016, relate to standby charges associated with the Corporation's credit facility and a credit facility renewal fee of \$14,000.

Exploration Expense

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Exploration expense	30	-	-	30	-	-
Exploration expense per boe	1.01	-	-	0.45	0.01	>500

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in the three and six months ended June 30, 2016, relate to seismic acquisition and processing costs incurred by the Corporation to evaluate a particular Crown land sale.

Interest Income

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Interest income	53	-	-	97	1	>500
Interest income per boe	1.79	-	-	1.46	0.01	>500

Interest income in the three and six months ended June 30, 2016, relate to cash invested in a short-term interest bearing account with Altura's lender.

Netbacks

(\$/boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Petroleum and natural gas sales	39.08	53.44	(27)	31.60	46.48	(32)
Royalties	(2.06)	(2.22)	(7)	(1.65)	(2.04)	(19)
Operating	(11.45)	(12.92)	(11)	(10.46)	(10.90)	(4)
Transportation	(2.88)	(3.14)	(8)	(2.84)	(2.85)	-
Operating netback	22.69	35.16	(35)	16.65	30.69	(46)
General and administrative	(17.65)	(8.20)	115	(13.20)	(7.39)	79
Interest and financing expenses	(0.70)	(0.22)	218	(0.41)	(0.17)	141
Exploration expense	(1.01)	-	-	(0.45)	-	-
Interest income	1.79	-	-	1.46	0.01	>500
Corporate netback	5.12	26.74	(81)	4.05	23.14	(82)

Altura's corporate netback was \$5.12 per boe in the second quarter of 2016 compared to \$26.74 per boe in the same period of 2015. On a year-to-date basis, Altura's corporate netback was \$4.05 per boe in 2016 compared to \$23.14 per boe in 2015. The quarterly and year-to-date decreases are a result of the significant decline in commodity prices, increased G&A and exploration expense, partially offset by decreased operating and royalty expenses and increased interest income. Excluding the severance costs included in G&A and the exploration expense, Altura's corporate netback would be \$12.01 per boe and \$7.11 per boe for the three and six months ended June 30, 2016.

Share-Based Compensation

(\$000)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Share-based compensation	237	71	234	534	105	409
Capitalized share-based compensation	(38)	(29)	31	(58)	(43)	35
Share-based compensation expense	199	42	374	476	62	668

The increase in share-based compensation expense in the three and six months ended June 30, 2016 from the same periods of 2015 is related to the expensing of the performance warrants issued in the third quarter of 2015 as well as expensing option grants to the new management team and directors.

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

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
DD&A	651	331	97	1,393	737	89
DD&A per boe	22.13	11.21	97	21.02	11.16	88

DD&A expense is a function of the estimated proved and probable reserve additions, the finding and development costs attributable to those reserves, the associated future development capital required to recover those reserves and production in the period. The Corporation determines its DD&A expense on an area basis.

DD&A expense increased on an aggregate basis and on a per boe basis in the three and six months ended June 30, 2016 due to a reduction in proved and probable reserves and future development capital as disclosed in the Corporation's 2015 Annual Information Form.

Investment

In the three months ended June 30, 2016, the Corporation sold its entire investment of common shares in the share capital of a publicly traded company for \$358,000 net of transaction costs. For the three months ended June 30, 2016, the Corporation recorded a loss of \$37,000 (June 30, 2015 – \$86,000 gain). For the six months ended June 30, 2016, the Corporation recorded a gain of \$120,000 (June 30, 2015 – \$nil).

Deferred Taxes

The Corporation had no deferred income tax expense or recovery in the three and six months ended June 30, 2016, compared to expenses of \$352,000 and \$208,000 for the respective periods in 2015. As at June 30, 2016, the Corporation had an unrecognized deferred tax asset.

Funds from Operations

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

(\$000, except per share amounts)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Cash flow from (used in) operating activities	28	715	(96)	(109)	1,393	(108)
Decommissioning liabilities settled	1	-	-	1	-	-
Changes in non-cash operating working capital	120	75	60	374	135	177
Funds from operations	149	790	(81)	266	1,528	(83)
Per share – basic	-	0.02	(100)	-	0.04	(100)
Per share – diluted	-	0.02	(100)	-	0.04	(100)

Details of the change in funds from operations and corporate netback per boe from the three and six months ended June 30, 2015 to the three and six months ended June 30, 2016 are as follows:

	Three months ended June 30		Six months ended June 30	
	\$000	\$/boe	\$000	\$/boe
Funds from operations - 2015	790	26.74	1,528	23.14
Volume variance	(38)	-	(52)	-
Price variance	(393)	(14.36)	(922)	(14.88)
Interest and other income	53	1.79	96	1.45
Royalties	5	0.16	25	0.39
Expenses:				
Operating	45	1.47	25	0.44
Transportation	8	0.26	(1)	0.01
General and administrative	(276)	(9.45)	(387)	(5.81)
Exploration expense	(30)	(1.01)	(30)	(0.45)
Interest and financing	(15)	(0.48)	(16)	(0.24)
Funds from operations - 2016	149	5.12	266	4.05

Funds from operations decreased by 81 percent in the second quarter of 2016 to \$149,000 from \$790,000 generated in the second quarter of 2015. The decrease reflects lower revenue due to significantly lower realized commodity prices and lower crude oil production, and higher G&A, exploration expense and interest and financing expenses in the second quarter of 2016 as compared to the second quarter of 2015. Reduced royalties, operating and transportation costs and increased interest income partially offset the reduction in commodity prices.

For the year-to-date, funds from operations decreased by \$1,262,000 from \$1,528,000 for the first six months of 2015 to \$266,000 for the first six months of 2016. This decrease is also due to decreased revenue from significantly lower commodity prices and lower crude oil production as well as higher G&A, exploration expense and interest and financing expenses, partially offset by reduced royalties and operating costs, and increased interest income.

Excluding the severance costs included in G&A and the exploration expense, Altura's funds from operations would be \$352,000 and \$469,000 for the three and six months ended June 30, 2016.

Income (Loss)

(\$000, except per share amounts)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Income (loss)	(692)	203	(441)	(1,445)	564	(356)
Per share – basic	(0.01)	0.01	(200)	(0.01)	0.02	(150)
Per share – diluted	(0.01)	0.01	(200)	(0.01)	0.02	(150)

For the three and six months ended June 30, 2016, Altura generated losses of \$692,000 and \$1,445,000, respectively, this compares to income of \$203,000 and \$564,000 for the respective periods in 2015. The change in the income (loss) and income (loss) per share were due primarily to decreased funds from operations, and increased DD&A and share-based compensation expense.

Capital Expenditures

(\$000)	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
Geological and geophysical	169	10	>500	205	10	>500
Land	70	591	(88)	119	749	(84)
Drilling and completions	1,800	94	>500	1,800	268	>500
Equipping and facilities	165	7	>500	212	63	237
Other	90	10	>500	162	10	>500
	2,294	712	222	2,498	1,100	127
Property acquisitions	-	257	(100)	-	257	(100)
Total capital expenditures and acquisitions	2,294	969	137	2,498	1,357	84

With the improvement in the crude oil forward strip pricing from the lows seen in early 2016, the Corporation commenced its 2016 drilling program in June with two gross (2.0 net) wells in the Klein North area that were equipped and brought on-stream in July.

Total drilling, completion, equipping and tie-in costs of the two Klein North wells are estimated at \$965,000 per well, which is \$133,000 less than the Klein North well that Altura drilled in the fourth quarter of 2015. Approximately \$60,000 of equipping costs per well were incurred subsequent to June 30, 2016 and are excluded from capital expenditures for the three and six months ended June 30, 2016; however, they have been included in the \$965,000 total cost estimate.

The decreased cost is a result of decreased drilling days, lower service costs and cost efficiencies of drilling multiple wells. In November 2015, the Corporation drilled an offsetting well in the Klein North area in 5.4 days and the Corporation improved on this by reducing the drilling time to 4.4 days and 3.1 days for the two wells drilled in June.

Decommissioning Liability

At June 30, 2016, Altura recorded a decommissioning liability of \$2.9 million (December 31, 2015 - \$2.6 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been discounted at the risk free rate of 1.1 percent (December 31, 2015 – 1.4 percent). Abandonment cost estimates are derived from both third party government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The increase in liability is due to two wells drilled in June 2016 coupled with a decrease in the risk free rate.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the six months ended June 30, 2016, accretion expense totaled \$16,000 (June 30, 2015 - \$17,000).

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 7.0 at June 30, 2016. The LMR reflects the results of a comparison of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Corporation to pay a deposit to the AER.

CAPITAL RESOURCES AND LIQUIDITY

Working Capital

The Corporation had a working capital surplus of \$20.0 million at June 30, 2016, compared to \$22.1 million at December 31, 2015. At June 30, 2016, the major components of Altura's current assets were cash and cash equivalents (97 percent), and revenue (2 percent) to be received from its oil and gas marketers in respect of June 2016 production. Altura routinely assesses the financial strength of its marketers and joint interest partners, and has determined \$64,000 of past due accounts receivable to be uncollectable and has booked an allowance for these amounts. Current liabilities largely consist of trade and joint interest payables (48 percent) and accrued liabilities (52 percent) related to the Corporation's operations. The Corporation manages its working capital using a combination of its funds from operations and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash in a short-term interest bearing account with its lender.

Credit Facility

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian chartered bank (the "Lender"). Altura's Credit Facility was reviewed in May 2016 and the borrowing base was revised to \$4.0 million from \$6.5 million as a result of a reduction in reserves and a decrease in the Lender's commodity price forecast. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Corporation is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility may be added to current assets. At June 30, 2016, the working capital ratio under the terms of the Credit Facility was calculated to be 12.4:1 (December 31, 2015 – 29.8:1). The next review date for the Credit Facility has been set for May 31, 2017.

Shareholders' Equity

At June 30, 2016, there were 108,920,973 common shares outstanding, 9,749,875 performance warrants outstanding and 3,800,000 stock options outstanding. The number of shares outstanding remains unchanged from December 31, 2015.

At August 10, 2016, the number of common shares, performance warrants and stock options outstanding remain unchanged from June 30, 2016.

Liquidity

At June 30, 2016, Altura had a working capital surplus of \$20.0 million, no debt and \$4.0 million available on its Credit Facility. Altura expects to have adequate liquidity to fund its 2016 capital expenditure forecast through a combination of available cash on hand, funds from operations and the \$4.0 million Credit Facility, if required. Altura's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserve evaluator.

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

Contractual Obligations and Commitments

In November 2015, the Corporation entered into a lease issuance and drilling commitment agreement whereby Altura acquired freehold petroleum leases in Alberta. Pursuant to the agreement, Altura agreed to drill one horizontal commitment well by October 31, 2016. The Corporation is subject to a non-performance penalty of \$0.5 million if the commitment is not fulfilled. The Corporation fulfilled the commitment in July 2016.

SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2016			2015			2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
OPERATING								
Average daily production								
Crude oil (bbls/d)	271	341	320	275	282	355	448	173
Natural gas (mcf/d)	289	348	374	267	238	268	259	130
NGLs (bbls/d)	4	7	6	8	3	6	4	3
Total (boe/d)	323	405	389	328	325	405	495	197
Average realized sales price								
Crude oil (\$/bbl)	44.21	28.04	39.46	45.48	58.24	43.73	68.05	83.78
Natural gas (\$/mcf)	1.53	1.96	2.59	3.05	2.83	2.99	3.83	4.26
NGLs (\$/bbl)	52.30	24.26	41.13	17.16	86.22	40.14	56.79	71.54
Total (\$/boe)	39.08	25.65	35.66	41.12	53.44	40.84	64.01	77.39
OPERATING NETBACK (\$ per boe) ⁽¹⁾								
Petroleum and natural gas sales	39.08	25.65	35.66	41.12	53.44	40.84	64.01	77.39
Royalty expenses	(2.06)	(1.33)	(1.37)	(1.93)	(2.22)	(1.90)	(3.82)	(7.50)
Operating and transportation costs	(14.33)	(12.48)	(12.73)	(15.19)	(16.05)	(11.87)	(11.92)	(17.06)
Operating netback ⁽¹⁾	22.69	11.84	21.56	24.00	34.88	26.90	48.27	52.83
FINANCIAL (\$000, except per share)								
Petroleum and natural gas sales	1,149	946	1,275	1,239	1,580	1,489	2,917	1,400
Funds from operations ⁽¹⁾	149	117	415	209	790	738	1,909	794
Per share – basic and diluted ⁽¹⁾	-	-	-	-	0.02	0.02	0.06	0.02
Cash flow from (used in) operating activities	28	(137)	262	(451)	715	666	2,634	(120)
Per share – basic and diluted	-	-	-	(0.01)	0.02	0.02	0.08	-
Income (loss)	(692)	(753)	(418)	(3,955)	203	361	1,102	677
Per share – basic and diluted	(0.01)	(0.01)	-	(0.05)	0.01	0.01	0.03	0.02
(\$000)								
Capital expenditures, net	2,294	204	1,666	160	969	388	776	3,264
Total assets	41,431	40,048	40,947	40,811	20,549	19,491	19,813	20,421
Working capital surplus (deficit)	20,011	22,199	22,129	23,151	(515)	(208)	(400)	(2,294)
Shareholders' equity	36,410	36,870	37,326	37,205	16,250	16,192	15,868	14,388
Common shares outstanding (000)								
Weighted average for the period - basic	108,921	108,921	108,821	82,301	35,074	35,289	34,360	34,328
Weighted average for the period - diluted	108,921	108,921	108,821	82,301	35,074	35,289	34,360	34,328
Shares outstanding, end of period	108,921	108,921	108,921	107,901	34,703	35,168	35,328	34,328

1. Funds from operations, funds from operations per share, and operating netback do not have standardized meanings prescribed by GAAP and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used they should be given careful consideration by the reader. Refer to the Non-GAAP Measures at the end of this MD&A.

Quarter over quarter fluctuations in revenue is the result of both the amount of oil and gas volumes sold as well as Altura's realized price. Crude oil and natural gas prices continued to decline in the first quarter of 2016 resulting in the decrease in petroleum and natural gas sales. Capital expenditures were lower in 2015 due to challenging economic conditions, which has contributed to declining production in the first and second quarters of 2015. One new well was drilled in the fourth quarter of 2015 resulting in an increase in production volumes in the fourth quarter of 2015 and the first quarter of 2016. Capital expenditures increased in the second quarter of 2016 as the Corporation commenced its 2016 drilling program in June with two wells in the Klein North area.

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

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

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

RISK FACTORS & RISK MANAGEMENT

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

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

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

CHANGES IN ACCOUNTING POLICIES

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. In September 2015, the IASB formalized the deferral of the effective date of IFRS 15 by one year, to January 1, 2018. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted.

Altura is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

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

In January 2016, the IASB issued IFRS 16, "Leases". The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been adopted. Under the new standard, companies will recognize new assets and liabilities, bringing off-balance sheet leasing arrangements onto the balance sheet. The Corporation is currently assessing the potential impact of the standard on Altura's financial statements.

ADVISORIES

Non-GAAP Measures

This MD&A and second quarter report contains references to measures used in the oil and natural gas industry such as "funds from operations", "corporate netback", "funds from operations per share", and "operating netback". These measures do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used, they should be given careful consideration by the reader. These measures have been described and presented in the MD&A and second quarter report in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations.

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

Barrels of Oil Equivalent

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

Forward-looking Information

This MD&A and second quarter report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward looking information or statements. In particular, but without limiting the foregoing, this MD&A and second quarter report contain forward-looking information and statements pertaining to the following: 2016 capital expenditure budget, including details of expected drilling and completion plans relating to such budget, the ability to grow

corporate production volumes, establishing the Corporation in a second organic play, estimated royalty rate and operating and transportation costs for the second half of 2016, financing sources for future capital, potential acquisition opportunities, estimates of normal course obligations, the amount of future decommissioning costs, and future liquidity and financial capacity.

The forward-looking information and statements contained in this MD&A and second quarter report reflect several material factors and expectations and assumptions of Altura including, without limitation: that Altura will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Altura's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures. Altura believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeted and developing future plans and readers are cautioned that the information may not be appropriate for other purposes.

The forward-looking information and statements included in this MD&A and second quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Altura's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Altura or by third party operators of Altura's properties, increased debt levels or debt service requirements; inaccurate estimation of Altura's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Altura's public documents including risk factors set out in Altura's most recent annual information form, which is available on SEDAR at www.sedar.com.

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

Initial Production Rates

Any references in this document 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. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Corporation.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

As at

(\$000)	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	21,380	22,389
Accounts receivable (note 9)	455	468
Prepaid expenses and deposits	278	30
Investment (note 5)	-	238
	22,113	23,125
Exploration and evaluation (note 3)	2,285	1,768
Property and equipment (note 4)	17,033	16,055
Total assets	41,431	40,948
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,102	996
	2,102	996
Decommissioning liability (note 7)	2,919	2,626
Total liabilities	5,021	3,622
SHAREHOLDERS' EQUITY		
Share capital (note 8)	37,712	37,712
Performance warrants (note 8e)	604	289
Contributed surplus	2,845	2,631
Deficit	(4,751)	(3,306)
Total shareholders' equity	36,410	37,326
Commitment (note 11)		
Subsequent event (note 11)		
Total liabilities and shareholders' equity	41,431	40,948

See accompanying notes to the unaudited interim condensed consolidated financial statements

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)**
(Unaudited)

(\$000, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
REVENUE				
Petroleum and natural gas sales	1,149	1,580	2,095	3,069
Royalties	(61)	(66)	(110)	(135)
Interest income	53	-	97	1
	1,141	1,514	2,082	2,935
EXPENSES AND OTHER ITEMS				
Operating	337	382	695	720
Transportation	85	93	189	188
General and administrative	519	243	875	488
Exploration expense	30	-	30	-
Share-based compensation (note 8)	199	42	476	62
Interest and financing charges	21	6	27	11
Depletion, depreciation and amortization (note 4)	651	331	1,393	737
Accretion of decommissioning liability (note 7)	8	8	16	17
	1,850	1,105	3,701	2,223
OTHER INCOME (EXPENSES)				
Flow-through share renunciation	-	60	-	60
Gain (loss) on investment (note 5)	(37)	86	120	-
Gain on disposition of assets (note 4)	54	-	54	-
	17	146	174	60
Income (loss) before taxes	(692)	555	(1,445)	772
Deferred tax expense	-	352	-	208
Income (loss) and comprehensive income (loss)	(692)	203	(1,445)	564
Income (loss) per share, basic and diluted (note 8d)	(0.01)	0.01	(0.01)	0.02

See accompanying notes to the unaudited interim condensed consolidated financial statements

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

(\$000)	Share capital	Warrants	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2014	13,046	1,295	-	967	559	15,867
Repurchase of common shares (note 8b)	(230)	-	-	-	(56)	(286)
Share-based compensation expense (note 8)	-	-	-	62	-	62
Share-based compensation capitalized (note 8)	-	-	-	43	-	43
Income for period	-	-	-	-	564	564
Balance, June 30, 2015	12,816	1,295	-	1,072	1,067	16,250
Balance, December 31, 2015	37,712	-	289	2,631	(3,306)	37,326
Repurchase of performance warrants (note 8e)	-	-	(5)	-	-	(5)
Share-based compensation expense (note 8)	-	-	291	185	-	476
Share-based compensation capitalized (note 8)	-	-	29	29	-	58
Loss for period	-	-	-	-	(1,445)	(1,445)
Balance, June 30, 2016	37,712	-	604	2,845	(4,751)	36,410

See accompanying notes to the unaudited interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$000)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES				
Income (loss) for period	(692)	203	(1,445)	564
Add items not involving cash:				
Deferred tax expense	-	352	-	208
Depletion, depreciation and amortization	651	331	1,393	737
Accretion of decommissioning liability (note 7)	8	8	16	17
Share-based compensation (note 8)	199	42	476	62
Gain (loss) on investment (note 5)	37	(86)	(120)	-
Flow-through share renunciation	-	(60)	-	(60)
Gain on disposition of assets (note 4)	(54)	-	(54)	-
Decommissioning liabilities settled	(1)	-	(1)	-
Change in non-cash working capital (note 10)	(120)	(75)	(374)	(135)
	28	715	(109)	1,393
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES				
Increase in credit facility	-	580	-	580
Repurchase of common shares (note 8b)	-	(215)	-	(286)
Repurchase of performance warrants (note 8e)	(5)	-	(5)	-
	(5)	365	(5)	294
CASH FLOW USED IN INVESTING ACTIVITIES				
Property and equipment expenditures	(1,877)	(126)	(2,006)	(514)
Exploration and evaluation asset expenditures	(417)	(586)	(492)	(586)
Property acquisitions	-	(257)	-	(257)
Disposition of investment (note 5)	358	-	358	-
Change in non-cash working capital (note 10)	1,394	(118)	1,245	(511)
	(542)	(1,087)	(895)	(1,868)
CHANGE IN CASH AND CASH EQUIVALENTS	(519)	(7)	(1,009)	(181)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,899	7	22,389	181
CASH AND CASH EQUIVALENTS, END OF PERIOD	21,380	-	21,380	-
Cash and cash equivalents consists of:				
CASH IN BANK ACCOUNT	1,312	-	1,312	-
CASH IN SHORT-TERM INVESTMENTS	20,068	-	20,068	-
	21,380	-	21,380	-
Cash interest paid	7	6	13	11

See accompanying notes to the unaudited interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As at June 30, 2016 and for the three and six months ended June 30, 2016 and 2015

1. REPORTING ENTITY

Altura Energy Inc. ("Altura" or the "Corporation") is an oil and gas exploration and production company with producing properties in east central Alberta. The Corporation is headquartered in Calgary and is an Alberta-based reporting entity whose shares are listed on the TSX Venture Exchange under the symbol: ATU.V. Altura's principal place of business is located at 200, 640 5th Avenue SW Calgary, Alberta, T2P 3G4.

On July 31, 2015 the Corporation closed a definitive reorganization and investment agreement (the "Reorganization") which provided for a non-brokered private placement (note 8b), appointment of a new management team and a future rights offering to shareholders.

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2015. In the opinion of management, these financial statements contain all adjustments necessary to present fairly Altura's financial position as at June 30, 2016 and the results of its operations and cash flows for the three and six months ended June 30, 2016 and 2015. Certain information and disclosures normally included in the notes to the audited consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on August 10, 2016.

(b) Basis of Measurement and Principles of Consolidation

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

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgement

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

In preparing the financial statements, the judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2015.

(e) Changes in Presentation

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

3. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2014	1,446
Additions	1,067
Transfers to property and equipment	(33)
Impairment	(712)
Balance, December 31, 2015	1,768
Additions	517
Balance, June 30, 2016	2,285

E&E assets consist of the Corporation's exploration projects, which are pending the determination of proven or probable reserves. Additions represent Altura's share of costs incurred on E&E assets during the periods. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$79,000 in the six months ended June 30, 2016 (June 30, 2015 – \$nil).

4. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost (\$000)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2014	19,739	4	19,743
Additions	1,913	31	1,944
Acquisitions	383	-	383
Dispositions	(20)	-	(20)
Transfers from E&E assets	33	-	33
Change in decommissioning costs	588	-	588
Balance, December 31, 2015	22,636	35	22,671
Additions	2,062	6	2,068
Change in decommissioning costs	303	-	303
Balance, June 30, 2016	25,001	41	25,042
Depletion, depreciation and impairment			
(\$000)			
Balance, December 31, 2014	(2,586)	(3)	(2,589)
Depletion, depreciation and amortization	(2,383)	(5)	(2,388)
Impairment	(1,639)	-	(1,639)
Balance, December 31, 2015	(6,608)	(8)	(6,616)
Depletion, depreciation and amortization	(1,388)	(5)	(1,393)
Balance, June 30, 2016	(7,996)	(13)	(8,009)
Carry amounts			
(\$000)			
As at December 31, 2015	16,028	27	16,055
As at June 30, 2016	17,005	28	17,033

At June 30, 2016, estimated future development costs of \$7.1 million (December 31, 2015 – \$9.2 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$96,000 in the six months ended June 30, 2016 (June 30, 2015 – \$139,000).

In May 2016, the Corporation entered into an asset swap arrangement in which Altura provided 480 net acres of undeveloped land in the Provost area of Alberta in exchange for 486 net acres of undeveloped land in the Wildmere area of Alberta. The estimated fair market value was determined to be \$29,000 based on the fair value of the Wildmere land received. Altura recorded a gain of \$29,000 on the disposition in the three and six month periods ended June 30, 2016.

In May 2016, the Corporation disposed of its BC land and non-producing wellbore for \$nil and the counterparty assumed all future liabilities. Altura recorded a gain of \$25,000 on the disposition in the three and six month periods ended June 30, 2016 relating to the transfer of the decommissioning liability.

No impairment indicators were identified on property and equipment as at June 30, 2016.

5. INVESTMENT

In the three months ended June 30, 2016, the Corporation sold its entire investment of common shares in the share capital of a publicly traded company for \$358,000 net of transaction costs. For the three months ended June 30, 2016, the Corporation recorded a loss of \$37,000 (June 30, 2015 – \$86,000 gain). For the six months ended June 30, 2016, the Corporation recorded a gain of \$120,000 (June 30, 2015 – \$nil).

6. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian chartered bank (the "Lender"). Altura's Credit Facility was reviewed in May 2016 and the new borrowing base was revised to \$4.0 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.5 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

The Credit Facility is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a \$12.0 million debenture with a first floating charge over all assets of the Corporation. Altura is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility is added to current assets. As at June 30, 2016, the working capital ratio as defined was 12.4:1 (December 31, 2015 – 29.8:1). The next review date for the Credit Facility has been set for May 31, 2017.

As at June 30, 2016 the Credit Facility was undrawn (December 31, 2015 - \$nil) and Altura had no outstanding letters of credit.

7. DECOMMISSIONING LIABILITY

The Corporation's decommissioning liability results from net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Altura estimates the total undiscounted and un-escalated amount of cash flows required to settle its decommissioning obligations as at June 30, 2016 to be approximately \$2.6 million (December 31, 2015 – \$2.5 million) with the majority of costs anticipated to be incurred between 2020 and 2025. A risk-free discount rate of 1.1 percent (December 31, 2015 – 1.4 percent) and an inflation rate of 2.0 percent (December 31, 2015 – 2.0 percent) was used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Six months ended June 30, 2016	Year ended December 31, 2015
Balance, beginning of period	2,626	1,883
Additions	188	106
Liabilities acquired	-	133
Liabilities disposed	(25)	-
Change in estimates ⁽¹⁾	115	445
Revaluation of liabilities acquired ⁽²⁾	-	37
Decommissioning liabilities settled	(1)	(10)
Accretion	16	32
Balance, end of period	2,919	2,626

(1) The change in estimates consists of a change in the risk-free discount rate of \$103,000 (December 31, 2015 – \$74,000) and a change in abandonment and remediation cost estimates and future abandonment dates of \$12,000 (December 31, 2015 – \$371,000).

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

8. SHARE CAPITAL

(a) Authorized:

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

(b) Issued and outstanding:

	Number of common shares	Amount (\$000)
Balance, December 31, 2014	35,327,599	13,046
Repurchase of common shares (i)	(624,200)	(231)
Exercise of stock options	250,000	188
Issuance of common shares on recapitalization (ii)	62,723,526	21,169
Issuance of units on recapitalization (ii)	10,223,953	3,451
Issuance of common shares on rights offering (iii)	1,020,125	344
Fractional rounding on share consolidation	(30)	-
Share issue costs (iv)	-	(255)
Balance, December 31, 2015 and June 30, 2016	108,920,973	37,712

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

- i) On December 18, 2014, the TSX Venture Exchange authorized the Corporation's notice to make a normal course issuer bid ("NCIB") to purchase for cancellation of up to 2,315,134 common shares of the Corporation on the open market during the period from December 24, 2014 to December 24, 2015. For the year ended December 31, 2015, the Corporation purchased a total of 624,200 common shares for cancellation at a weighted average price of \$0.46 per share pursuant to the NCIB, which excludes the fees incurred to implement the NCIB program. The excess of the purchase price over the book value of \$56,000 was charged to deficit.
- ii) On July 31, August 28, and September 4, 2015, the Corporation closed three tranches of a non-brokered private placement issuing (i) 10,223,953 units ("Units") at a price of \$0.3375 per unit to insiders, directors and management and (ii) 62,723,526 common shares of the Corporation at a price of \$0.3375 per common

share for aggregate gross proceeds of \$24.6 million. Each Unit is comprised of one common share and one common share purchase warrant (a "Performance Warrant"). Each Performance Warrant will entitle the holder to purchase one common share at a price of \$0.449 per share for a period of five years (note 8e).

- iii) On October 9, 2015, the Corporation completed a rights offering to shareholders of the Corporation (the "Rights Offering"). Under the Rights Offering, holders of common shares of the Corporation subscribed for and purchased an aggregate of 1,020,125 common shares at a price of \$0.3375 per common share, resulting in gross proceeds to the Corporation of \$344,000.
- iv) Share issue costs on the private placement and Rights Offering totaled \$255,000.

(c) Stock options:

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

No stock options were exercised in the three and six month periods ended June 30, 2016 and 2015.

A summary of the Corporation's outstanding stock options at June 30, 2016 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2014	1,510,000	1.00
Granted	5,500,000	0.38
Exercised	(250,000)	0.50
Cancelled	(2,810,000)	0.77
Balance, December 31, 2015	3,950,000	0.34
Granted	350,000	0.29
Forfeited	(500,000)	0.34
Balance, June 30, 2016	3,800,000	0.33

The range of exercise prices for stock options outstanding and exercisable under the plan at June 30, 2016 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low (\$)	High (\$)	Quantity	Remaining contractual life (years)	Exercise Price	Quantity	Remaining contractual life (years)	Exercise Price (\$)
0.29	0.3375	3,800,000	4.5	0.33	-	-	-
		3,800,000	4.5	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:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Weighted average fair value of options granted (\$)	0.19	-	0.19	0.39
Risk-free interest rate (%)	0.71	-	0.71	0.72
Expected life (years)	3.5	-	3.5	3.0
Expected volatility (%)	102.7	-	102.7	243.9
Estimated forfeiture rate (%)	5.0	-	5.0	12.0
Expected dividends (\$)	-	-	-	-

The Corporation's share-based payments relating to stock options for the six months ended June 30, 2016 was \$214,000 (June 30, 2015 – \$105,000) of which \$29,000 of the share-based compensation was capitalized (June 30, 2015 – \$43,000).

(d) Weighted average common shares:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Basic	108,920,973	35,074,131	108,920,973	35,180,799
Diluted	108,920,973	35,074,131	108,920,973	35,180,799

For the three and six month periods ended June 30, 2016 3,800,000 stock options and 9,749,879 Performance Warrants were excluded from the weighted average number of common shares as they were anti-dilutive (2015 – 3,060,000 stock options and 8,625,960 warrants).

(e) Performance Warrants:

A summary of the Corporation's outstanding performance warrants at June 30, 2016 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2014	-	-
Granted	10,223,953	0.449
Balance, December 31, 2015	10,223,953	0.449
Forfeited	(474,074)	0.449
Balance, June 30, 2016	9,749,879	0.449

The Performance Warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding \$0.675, an additional one-third upon the trading price equaling or exceeding \$0.901 and a final one-third upon the trading price equaling or exceeding \$1.124. The Performance Warrants expire on July 31, and August 28, 2020. As at June 30, 2016 no warrants are exercisable. On the grant date the weighted average fair value of \$0.27 per Performance Warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based payments relating to Performance Warrants for the six months ended June 30, 2016 was \$320,000 (June 30, 2015 – \$nil) of which \$29,000 of the share-based compensation was capitalized (June 30, 2015 – \$nil). The fair value of the Performance Warrants is being expensed over the expected life.

In the three and six month periods ended June 30, 2016, the Corporation repurchased 474,074 Performance Warrants for cancellation for \$5,000 from a former officer of the Corporation, pursuant to the terms of the July 6, 2015 reorganization and investment agreement.

9. FINANCIAL AND CREDIT RISK

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

The majority of the credit exposure on accounts receivable at June 30, 2016 pertains to revenue for accrued June 2016 production volumes. Altura primarily transacts with one oil and natural gas marketing company and is therefore subject to concentration risk. The marketing company typically remits amounts to Altura by the 25th day of the month following production. At June 30, 2016 86 percent of total outstanding accounts receivable pertains to this company. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at June 30, 2016.

At June 30, 2016, the Corporation's trade receivables have been aged as follows:

(\$000)	June 30, 2016	December 31, 2015
Current	453	446
31 – 60 days	-	20
61 – 90 days	-	1
> 90 days	66	65
Allowance for doubtful accounts	(64)	(64)
Total	455	468

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Altura considers all amounts greater than 90 days to be past due. At June 30, 2016 management determined \$64,000 of accounts receivable past due to be uncollectable and as such booked an allowance for these amounts (December 31, 2015 - \$64,000).

10. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Provided by (used in):				
Accounts receivable	(146)	(74)	13	39
Prepaid expenses and deposits	(184)	18	(248)	(34)
Accounts payable and accrued liabilities	1,604	(137)	1,106	(651)
	1,274	(193)	871	(646)
Provided by (used in):				
Operating activities	(120)	(75)	(374)	(135)
Investing activities	1,394	(118)	1,245	(511)
	1,274	(193)	871	(646)

11. COMMITMENT

In November 2015, the Corporation entered into a lease issuance and drilling commitment agreement whereby Altura acquired freehold petroleum leases in Alberta. Pursuant to the agreement, Altura agreed to drill one horizontal commitment well by October 31, 2016. The Corporation is subject to a non-performance penalty of \$0.5 million if the commitment is not fulfilled. Subsequent to June 30, 2016, the Corporation fulfilled the commitment.

CORPORATE INFORMATION

BOARD OF DIRECTORS

David Burghardt
President & Chief Executive Officer
Altura Energy Inc.

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

Brian Lavergne
President & Chief Executive Officer
Storm Resources Ltd.

Robert Maitland
Independent Businessman

John McAleer
Managing Director
Palisade Capital Management Ltd.

OFFICERS

David Burghardt
President & Chief Executive Officer

Travis Stephenson
Vice President, Engineering

D. Robert Pinckston
Vice President, Exploration

Jeff Mazurak
Vice President, Operations

Tavis Carlson
Vice President, Finance & Chief Financial Officer

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

ATB Corporate Financial Services
Calgary, Alberta

LEGAL COUNSEL

Stikeman Elliott LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK TRADING

TSX Venture Exchange
Trading Symbol: **ATU**

