

# 2018 THIRD QUARTER REPORT



## OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>OPERATING</b>					
Average daily production					
Heavy oil (Bbls/d)	805	478	274	611	309
Medium oil (Bbls/d)	51	271	624	242	605
Natural gas (Mcf/d)	1,128	1,309	1,045	1,257	1,018
NGLs (Bbls/d)	23	23	16	28	19
Total (Boe/d)	1,067	991	1,088	1,090	1,103
Total Boe/d per million shares – diluted	9.5	9.0	10.0	9.9	10.1
Average realized prices					
Heavy oil (\$/Bbl)	56.59	58.83	46.50	53.93	45.69
Medium oil (\$/Bbl)	66.74	67.64	47.61	58.36	50.41
Natural gas (\$/Mcf)	1.23	1.32	1.71	1.58	2.55
NGLs (\$/Bbl)	51.30	51.68	49.54	51.03	41.37
Total (\$/Boe)	48.29	49.87	41.38	46.30	43.54
(\$/Boe)					
Petroleum and natural gas sales	48.29	49.87	41.38	46.30	43.54
Royalties	(4.57)	(4.69)	(3.70)	(4.59)	(4.11)
Operating	(7.09)	(12.26)	(10.01)	(10.10)	(10.18)
Transportation	(2.17)	(1.70)	(2.65)	(1.84)	(2.46)
Operating netback <sup>(1)</sup>	34.46	31.22	25.02	29.77	26.79
General and administrative	(4.25)	(5.17)	(3.78)	(4.46)	(3.62)
Exploration expense	(0.21)	-	-	(0.07)	-
Interest and financing expense	(0.03)	(0.88)	(0.06)	(0.46)	(0.14)
Interest income	0.34	0.18	-	0.17	0.06
Adjusted funds flow per Boe <sup>(1)</sup>	30.31	25.35	21.18	24.95	23.09
<b>FINANCIAL</b> (\$000, except per share amounts)					
Petroleum and natural gas sales	4,741	4,497	4,143	13,785	13,108
Adjusted funds flow <sup>(1)</sup>	2,977	2,285	2,119	7,430	6,952
Per share – diluted <sup>(1)</sup>	0.03	0.02	0.02	0.07	0.06
Net income	750	2,750	322	3,677	929
Per share – diluted	0.01	0.02	-	0.03	0.01
Capital expenditures	16,717	6,344	6,439	30,406	19,219
Property acquisitions/(dispositions), net	2,637	(27,712)	-	(25,075)	(750)
Net debt (working capital surplus) <sup>(1)</sup>	1,887	(14,761)	2,881	1,887	2,881
Common shares outstanding (000)					
End of period – basic	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – basic	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – diluted	112,281	110,546	108,922	110,475	109,019

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

## PRESIDENT'S MESSAGE

### THIRD QUARTER 2018 HIGHLIGHTS

- Third quarter production volumes averaged 1,067 Boe per day (82 percent oil and liquids), an increase of eight percent from the second quarter of 2018. Leduc-Woodbend production volumes increased 105 percent from the second quarter of 2018.
- Adjusted funds flow<sup>1</sup> was \$3.0 million (\$30.31 per Boe), up 30 percent from the second quarter of 2018 and up 40 percent from the third quarter of 2017. The improvement from the second quarter of 2018 was largely from lower operating and transportation costs.
- Operating and transportation costs totaled \$9.26 per Boe, down 34 percent from the second quarter of 2018 and down 27 percent from the third quarter of 2017. This decrease is largely a result of lower cost production growth into the new multi-well battery at Leduc-Woodbend.
- Operating netback<sup>1</sup> was \$34.46 per Boe, up 10 percent from the second quarter of 2018 and up 43 percent from the third quarter of 2017.
- Capital expenditures totaled \$16.7 million as Altura drilled and completed six 1.5-mile extended reach horizontal ("ERH") wells and commissioned its multi-well oil battery with a processing capacity of 3,000 to 3,500 barrels of oil per day.
- Net income was \$750,000, up 133 percent from the third quarter of 2017.
- Closed an acquisition comprised of 2.6 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 40 percent working interest in a producing oil unit in the Leduc-Woodbend area of Alberta for cash consideration of \$2.6 million, net of customary post-closing adjustments.
- Net debt<sup>1</sup> at September 30, 2018 was \$1.9 million or 0.2 times annualized third quarter adjusted funds flow.
- Production field estimates for the month of October averaged 2,050 Boe per day, a record for the Corporation, achieving its 2018 exit production guidance two months early.

### OPERATIONS REVIEW

Altura had an active third quarter, investing \$16.7 million of capital, excluding acquisitions and dispositions, bringing the total invested in the nine months ended September 30, 2018 to \$30.4 million. Third quarter capital activity included drilling and completing six ERH oil wells and completing the construction of a new multi-well battery at Leduc-Woodbend.

The eight well summer drilling program was completed on August 23<sup>rd</sup>, four weeks ahead of schedule, and under budget by approximately \$125,000 per well. The Corporation's 2018 capital expenditure guidance is \$33 million, before acquisitions and dispositions, which is consistent with guidance provided on October 11, 2018. The capital expenditure program is expected to be funded from cash on hand, cash flow from operating activities and Altura's \$3 million credit facility.

Five wells were brought on production throughout July and August, increasing third quarter production volumes to 1,067 Boe per day compared to 521 Boe per day at Leduc-Woodbend in the second quarter. Two additional wells commenced production on October 3<sup>rd</sup> and the last well of the summer program was completed in early November and is in the clean-up phase. Altura plans to shut the last well in after post-frac clean-up and will commence equipping operations and production in January 2019.

Altura completed the construction of its multi-well oil battery at 12-14-049-26W4 on time and on budget. Since commissioning the battery on July 30<sup>th</sup>, it has processed total fluid volumes of up to 6,000 barrels per day and has enabled Altura to haul clean oil to additional sales terminals to optimize pricing and reduce operating costs.

---

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

Altura realized significant per unit cost reductions in the third quarter with operating and transportation costs decreasing 34 percent to \$9.26 per Boe from \$13.96 per Boe in the second quarter of 2018. The decreased per unit costs are due to the May 31, 2018 disposition of higher cost properties, coupled with Altura's new multi-well battery and growth of lower-cost production at Leduc-Woodbend.

Altura is committed to maximizing return on capital through proven operating and capital efficiencies in the development of its focused, large-scale resource in the Upper Mannville oil pool at Leduc-Woodbend. Since acquiring its initial lands in 2015 at Leduc-Woodbend and deploying the net proceeds of \$27.3 million from the disposition of assets in May 2018, the Corporation has:

- accumulated a total of 70 net sections of land within the oil pool;
- drilled, completed, equipped and tied-in a total of 13 horizontal wells, comprised of 11 ERH wells and two 1-mile long horizontal wells;
- commissioned a multi-well oil battery at 12-14-049-26W4 with a processing capacity of approximately 3,000 to 3,500 barrels of oil per day;
- increased Leduc-Woodbend production from nil to 2,050 Boe per day in October 2018;
- delineated a multi-well inventory to support future growth of the Corporation; and
- maintained a prudent debt level to protect the balance sheet of the Corporation.

## OUTLOOK

The global energy industry has benefitted from increasing oil prices throughout 2018, however, in the second half of 2018 Canadian light, medium and, specifically, heavy oil prices have been negatively impacted. The lack of pipeline access to international oil markets, the temporary seasonal maintenance of oil refineries in the United States, the slowly growing crude-by-rail option to transport crude to the United States, full Canadian oil storage and the growth of Canadian oil production have contributed to a rapid and severe reduction in prices for Canadian light, medium and heavy crude oil. The Corporation believes this is temporary and expects Canadian oil differentials to improve over the coming months through the combination of US refineries coming back on line, the temporary reduction of Canadian heavy oil supply in the face of weak pricing, continued growth in crude-by-rail export volumes and the startup of the Enbridge Line 3 Replacement pipeline project scheduled for the fourth quarter of 2019.

The Corporation's strategy is to proactively optimize the price received for its crude oil production and to protect itself from volatile pricing by selling production volumes into various light-sweet, light-sour and heavy streams, in addition to selling crude-by-rail. The Corporation will continue to evaluate all options to maximize economic value for its shareholders and will make strategic decisions to curtail production and defer capital spending as required to manage the current Canadian crude oil pricing challenges.

Guidance for 2018 has been updated and is included in the MD&A. Exit production in 2018 is now expected to range between 1,000–2,000 Boe per day (previously 2,000 Boe per day) as a result of apportionments and the steep decline in the WCS price over the last two months.

2019 planning is focused on growing per share production and cash flow from Leduc-Woodbend. The Corporation will manage 2019 investment levels, as required, to protect balance sheet strength. Altura plans to provide guidance on its 2019 capital program in early 2019.

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

Respectfully,

/s/ David Burghardt  
President and Chief Executive Officer  
November 8, 2018

## 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 November 8, 2018 and should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2018, the audited consolidated financial statements and related notes for the year ended December 31, 2017, as well as the Corporation's Annual Information Form that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, in Canadian dollars, except where indicated otherwise.

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

### DESCRIPTION OF BUSINESS

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

### ECONOMIC ENVIRONMENT

Global crude oil prices continued to strengthen in the third quarter of 2018, with the West Texas Intermediate ("WTI") benchmark price averaging two percent higher than the second quarter of 2018 and 45 percent higher than the third quarter of 2017. Altura primarily compares its oil price to the Western Canadian Select oil price ("WCS") at Hardisty, which decreased two percent in the third quarter of 2018 relative to the second quarter of 2018 but increased 29 percent relative to the third quarter of 2017. The differential between WTI and WCS widened in the third quarter of 2018, averaging US\$22.25 per barrel, 15 percent wider than the second quarter of 2018 and widened 129 percent relative to the third quarter of 2017.

WCS differentials have widened even further in October and November 2018 to US\$29.61 and US\$45.66 per barrel, respectively. The lack of pipeline access to international oil markets, the temporary seasonal maintenance of oil refineries in the United States, the slowly growing crude-by-rail option to transport crude to the United States, full Canadian oil storage and the growth of Canadian oil production have contributed to a rapid and severe reduction in prices for Canadian light, medium and heavy crude oil. The Corporation believes this is temporary and expects Canadian oil differentials to improve over the coming months through the combination of US refineries coming back on line, the temporary reduction of Canadian heavy oil supply in the face of weak pricing, continued growth in crude-by-rail export volumes and the startup of the Enbridge Line 3 Replacement pipeline project scheduled for the fourth quarter of 2019.

## 2018 GUIDANCE

Updated 2018 guidance is provided below along with a comparison to previous guidance. Previous 2018 guidance was provided in the Corporation's press releases dated May 15, 2018, August 9, 2018 and October 11, 2018, and Altura's Second Quarter 2018 MD&A. Copies of the press releases and MD&A are available under Altura's profile on SEDAR at [www.sedar.com](http://www.sedar.com) or on Altura's website at [www.alturaenergy.ca](http://www.alturaenergy.ca).

	<b>November 9, 2018 Guidance</b>	Previous Guidance
2018 exit production rate <sup>(1)</sup> (Boe/d)	<b>1,000–2,000</b>	2,000
2018 capital expenditures (excluding A&D) (\$000)	<b>\$33,000</b>	\$33,000
2018 well-related capital <sup>(2)</sup> (\$000)	<b>\$25,700</b>	\$26,000
2018 capital efficiency <sup>(3)</sup> (\$/Boe/d)	<b>\$16,200</b>	\$17,000
H2 2018 royalty rate (%)	<b>8%–10%</b>	8%–10%
H2 2018 operating and transportation costs (\$/Boe)	<b>\$9.50–\$11.00</b>	\$10.00–\$11.00

(1) 2018 exit rate production is the forecasted production volumes for December 2018.

(2) Well-related capital includes drilling, completions, workovers, equipping and tie-in capital. November 9, 2018 capital expenditure guidance is split approximately 78 percent to well related capital and 22 percent to infrastructure and other capital, versus previous guidance on October 11, 2018 of 79 percent to well related capital and 21 percent to infrastructure and other capital.

(3) Capital efficiency equals well related capital divided by the 365-day forecasted average production rate ("IP365") from new wells drilled. Material assumptions include Altura's well related capital of \$25.7 million and forecasted IP365 of 1,590 Boe/d from 10 wells drilled in 2018. Previous capital efficiency guidance on March 22, 2018 included material assumptions of well related capital of \$9.5 million and an IP365 of 550 Boe/d from four wells.

Altura's corporate production averaged 2,050 Boe per day (82 percent oil and liquids) in October, based on field estimates. However, the lack of pipeline capacity in western Canada has resulted in reduced oil prices and pipeline apportionments on a portion of Altura's volume nominations. Due to the current uncertainty, the Corporation may curtail its post-apportioned production in November or December and is therefore revising its guidance for the December 2018 exit rate to range between 1,000–2,000 Boe per day.

Altura is forecasting a capital efficiency improvement to \$16,200 per Boe per day from previous guidance of \$17,000 per Boe per day due to lower well-related capital from drilling cost efficiencies experienced in the summer drilling program.

The Corporation's operating and transportation costs for the third quarter of 2018 were \$9.26 per Boe, seven percent lower than previous guidance's low range of \$10.00 per Boe, due mainly from the growth of lower cost production at Leduc-Woodbend. As a result, operating and transportation cost guidance has been revised to \$9.50–\$11.00 per Boe for the second half of 2018.

## EAST CENTRAL ALBERTA AND SASKATCHEWAN 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 gross consideration for the Provost Disposition totaled \$28,375,000. Consideration, net of customary post-closing adjustments of \$701,000 and transaction costs of \$411,000, totaled \$27,263,000.

The Corporation's reported results for the nine months ended September 30, 2018 include operational and financial contribution from the disposed assets up to the date of closing of May 31, 2018, when control transferred.

The Provost Disposition strategically transformed the Corporation to a geographically and geologically-focused Upper Mannville producer at Leduc-Woodbend, located 30 km south of Edmonton, Alberta. Altura holds a large land base at Leduc-Woodbend consisting of 70 net sections of operated land with substantial development potential. Delineation and development of the Corporation's Leduc-Woodbend asset continued with Altura's summer drilling program of eight 1.5-mile extended reach horizontal ("ERH") oil wells and infrastructure development.

## LEDUC-WOODBEND ASSET ACQUISITIONS

On July 31, 2018, the Corporation closed an acquisition of 2.6 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 40 percent working interest in a producing oil unit in the Leduc-Woodbend area of Alberta (the "Asset Acquisition") from a third-party for cash consideration of \$2,608,000, net of customary post-closing adjustments. The effective date of the transaction was April 1, 2018.

On July 24, 2018, the Corporation entered into a second agreement (the "Second Acquisition") to purchase 0.4 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 20 percent working interest in the producing oil unit from a second third-party for cash consideration of \$1,050,000, subject to customary post-closing adjustments. The effective date of the transaction is July 1, 2018 and closing is expected to occur on December 1, 2018, subject to customary closing conditions. Altura paid a deposit of \$263,000 on July 24, 2018, which is being held in escrow until closing.

## RESULTS OF OPERATIONS

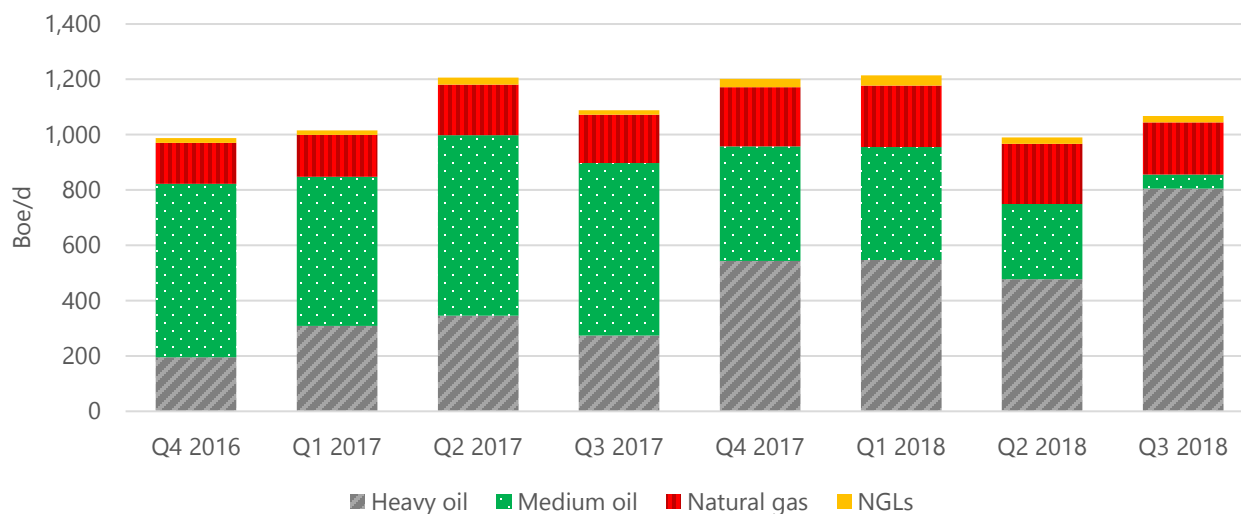
### Production

	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Heavy oil (Bbls/d)	805	274	194	611	309	98
Medium oil (Bbls/d)	51	624	(92)	242	605	(60)
Natural gas (Mcf/d)	1,128	1,045	8	1,257	1,018	23
Natural gas liquids ("NGLs") (Bbls/d)	23	16	44	28	19	47
Total (Boe/d)	1,067	1,088	(2)	1,090	1,103	(1)
Oil and natural gas liquids % of production	82%	84%	(2)	81%	85%	(5)

During the three and nine months ended September 30, 2018, heavy oil production (17° API) increased 194 percent and 98 percent respectively, as compared to the same periods in the prior year. The increases are due to increased production from the Leduc-Woodbend area following drilling and completions activity. Altura drilled eight ERH wells during its summer 2018 drilling program, commissioned a new multi-well battery and brought five wells on production over July and August.

For the three and nine months ended September 30, 2018, medium oil production decreased 92 percent and 60 percent, respectively, as compared to the same periods of the prior year. The decrease in both periods reflects the Provost Disposition, partially offset by two months of production from the Asset Acquisition that closed on July 31, 2018.

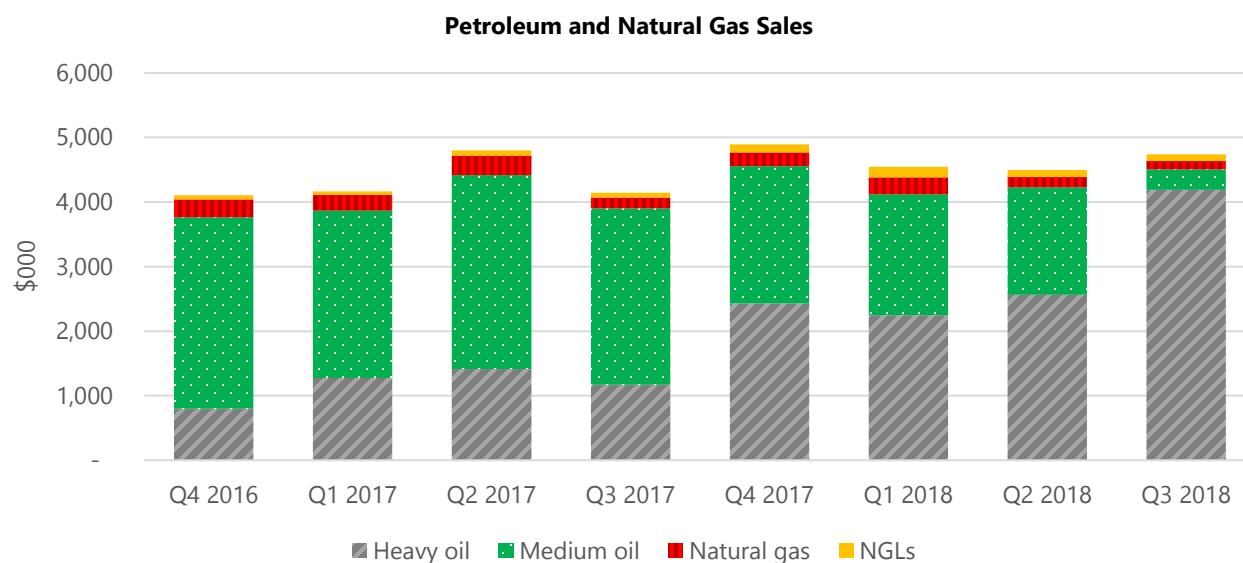
Average Daily Production



## Petroleum and Natural Gas Sales

(\$000)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Heavy oil	4,190	1,172	258	8,996	3,859	133
Medium oil	315	2,732	(88)	3,861	8,326	(54)
Natural gas	128	164	(22)	544	709	(23)
Natural gas liquids	108	75	44	384	214	79
Petroleum and natural gas sales	4,741	4,143	14	13,785	13,108	5

Petroleum and natural gas sales for the third quarter of 2018 increased 14 percent to \$4,741,000 compared to \$4,143,000 in the third quarter of 2017. The quarter-over-quarter increase of \$598,000 consists of \$792,000 attributed to higher realized crude oil prices, partially offset by \$194,000 attributed to decreased production volumes from the Disposition. For the nine months ended September 30, 2018, petroleum and natural gas sales increased five percent to \$13,785,000 compared to \$13,108,000 in the same period of 2017. The increase of \$677,000 consists of \$1,640,000 attributed to higher crude oil prices, partially offset by \$963,000 attributed to decreased production volumes from the Disposition.



Altura's objective is to sell 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 September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
<b>Average Benchmark Prices</b>						
WTI crude oil (US\$/Bbl) <sup>(1)</sup>	<b>69.50</b>	48.05	45	<b>66.75</b>	49.42	35
WCS differential (US\$/Bbl) <sup>(2)</sup>	<b>(22.25)</b>	(9.73)	129	<b>(21.93)</b>	(11.87)	85
US\$/Cdn\$ exchange rate	<b>0.765</b>	0.800	(4)	<b>0.776</b>	0.765	1
WCS (Cdn\$/Bbl)	<b>61.76</b>	47.90	29	<b>57.73</b>	49.09	18
AECO daily spot (\$/GJ)	<b>1.13</b>	1.38	(18)	<b>1.41</b>	2.19	(36)
<b>Average Realized Prices</b>						
Heavy oil (\$/Bbl)	<b>56.59</b>	46.50	22	<b>53.93</b>	45.69	18
Medium oil (\$/Bbl)	<b>66.74</b>	47.61	40	<b>58.36</b>	50.41	16
Natural gas (\$/Mcf)	<b>1.23</b>	1.71	(28)	<b>1.58</b>	2.55	(38)
Natural gas liquids (\$/Bbl)	<b>51.30</b>	49.54	4	<b>51.03</b>	41.37	23
Average realized price (\$/Boe)	<b>48.29</b>	41.38	17	<b>46.30</b>	43.54	6

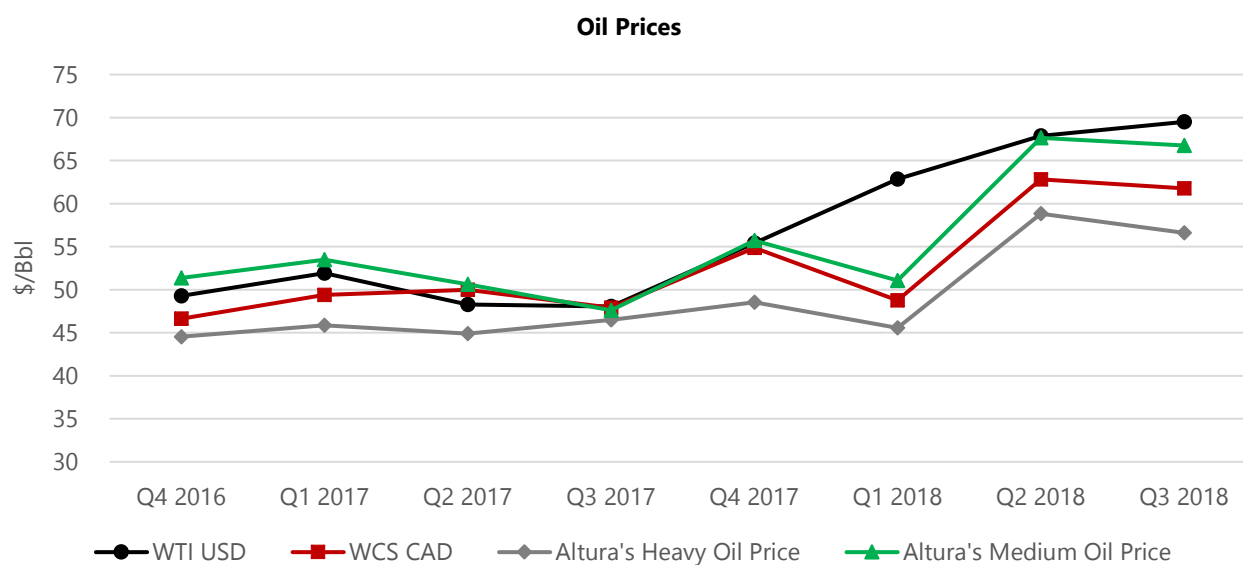
(1) WTI represents posting price of West Texas Intermediate crude oil.

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

During the three and nine months ended September 30, 2018, while WTI increased 45 percent and 35 percent, respectively, Altura's realized heavy oil price increased 22 percent and 18 percent and the realized medium oil price increased 40 percent and 16 percent, respectively, over the same time periods in the prior year. The impact of improved WTI prices was partially offset by the widening differential between WTI and WCS to an average discount of US\$22.25 per barrel and US\$21.93 per barrel compared to US\$9.73 per barrel and US\$11.87 per barrel, in the same periods in 2017, respectively.

The WCS differential started widening in the fourth quarter of 2017 due to pipeline outages and export pipeline capacity constraints from increased oilsands production in western Canada. Despite increased exports of crude-by-rail volumes in 2018, the WCS differential remains under pressure.

For the three and nine months ended September 30, 2018, Altura's realized natural gas price decreased by 28 percent and 38 percent compared to the same periods in the prior year due to the decline in the AECO daily spot price, which was impacted by concerns of oversupply, ongoing pipeline maintenance, and infrastructure constraints in western Canada.



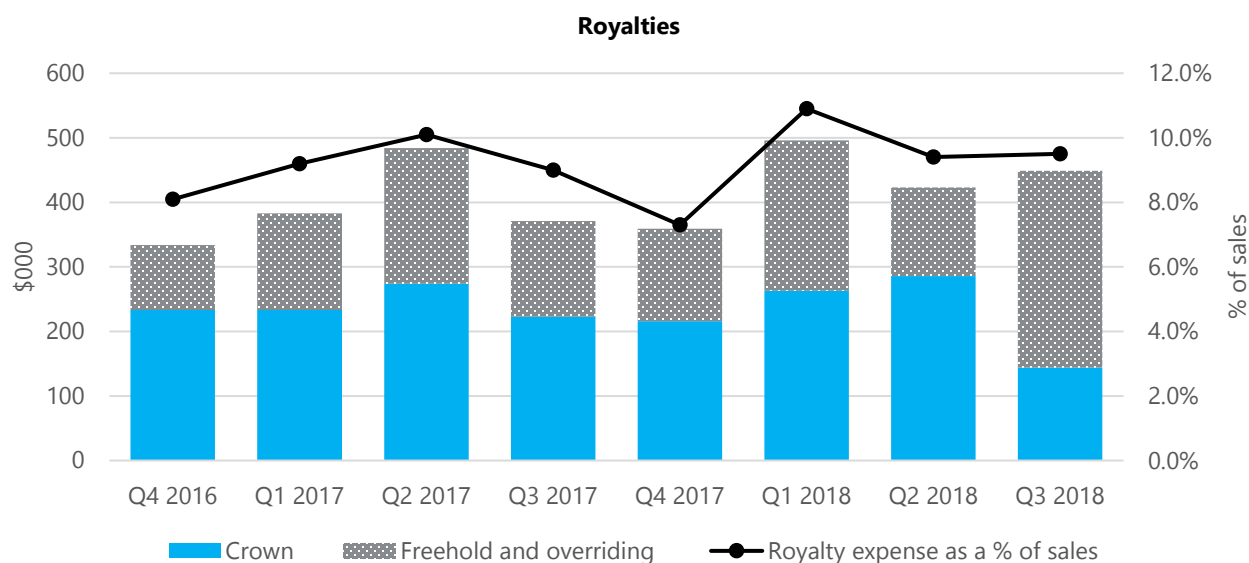


## Royalties

(\$000, except % and per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Crown royalties	144	223	(35)	693	730	(5)
Freehold and overriding royalties	305	148	106	675	508	33
Royalty expense	449	371	21	1,368	1,238	11
Royalty expense as a % of sales	9.5%	8.9%	7	9.9%	9.4%	5
Royalty expense per Boe	4.57	3.70	24	4.59	4.11	12

Total royalties for the three and nine months ended September 30, 2018 were \$449,000 and \$1,368,000 (\$371,000 and \$1,238,000 for the same periods in 2017), respectively. Total royalties as a percentage of petroleum and natural gas sales increased from 8.9 percent (\$3.70 per Boe) in the third quarter of 2017 to 9.5 percent (\$4.57 per Boe) in the third quarter of 2018. For the nine months ended September 30, 2018, total royalties represented 9.9 percent of petroleum and natural gas sales (\$4.59 per Boe) as compared to 9.4 percent (\$4.11 per Boe) in the same period in 2017. The increase in total royalties for the three and nine months ended September 30, 2018, is due to increased commodity prices and increased production on freehold lands that have higher average royalty rates than Crown lands, partially offset by reduced Crown royalties from the Provost Disposition.

Altura is forecasting royalty rates to range between eight and 10 percent in the fourth quarter of 2018.



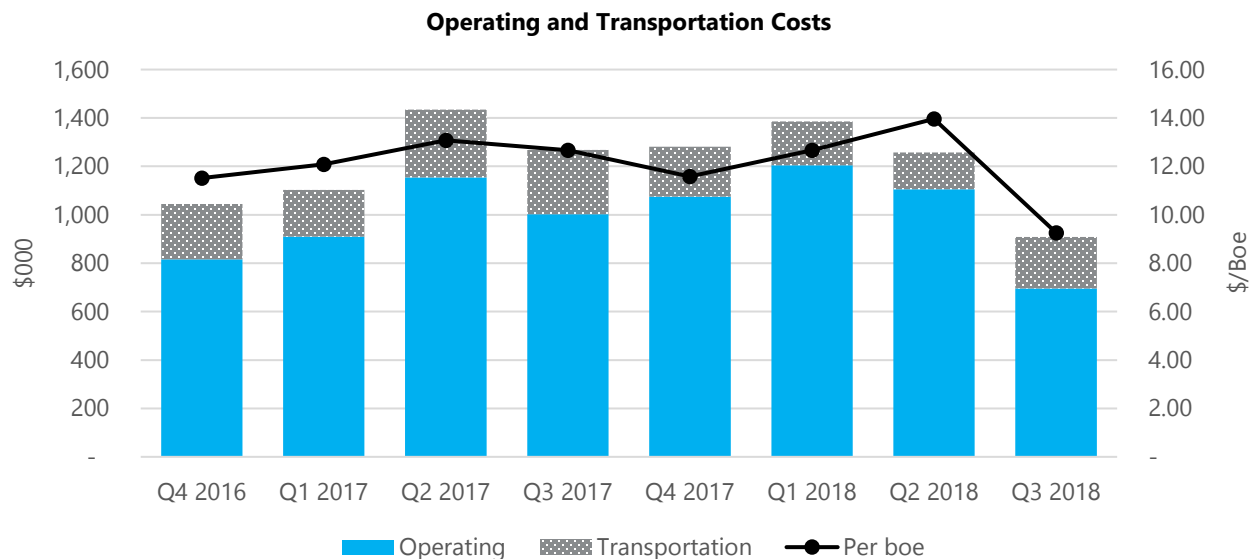
## Operating and Transportation Costs

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Operating	<b>696</b>	1,002	(31)	<b>3,005</b>	3,066	(2)
Transportation	<b>213</b>	266	(20)	<b>547</b>	739	(26)
Operating and transportation	<b>909</b>	1,268	(28)	<b>3,552</b>	3,805	(7)
Operating per Boe	<b>7.09</b>	10.01	(29)	<b>10.10</b>	10.18	(1)
Transportation per Boe	<b>2.17</b>	2.65	(18)	<b>1.84</b>	2.46	(25)
Operating and transportation per Boe	<b>9.26</b>	12.66	(27)	<b>11.94</b>	12.64	(6)

Operating and transportation costs decreased by \$359,000 in the third quarter of 2018 to \$909,000 as compared to the third quarter of 2017. On a per unit basis, operating and transportation costs decreased \$3.40 to \$9.26 per Boe in the third quarter of 2018 compared to \$12.66 per Boe in the third quarter of 2017. The decrease on an absolute and per unit basis is mainly due to reductions from the Provost Disposition that had higher average operating costs, coupled with Altura's growth of lower cost production at Leduc-Woodbend.

For the nine months ended September 30, 2018, operating and transportation costs decreased by \$253,000 to \$3,552,000 compared to the same period in 2017. This decrease is mainly a result of the Provost Disposition that had higher average operating costs, and increased production at Leduc-Woodbend. On a per unit basis, operating and transportation costs decreased by \$0.70 to \$11.94 per Boe compared to the nine months ended September 30, 2017.

Altura is forecasting total operating and transportation costs to range between \$9.50 and \$11.00 per Boe in the fourth quarter of 2018.

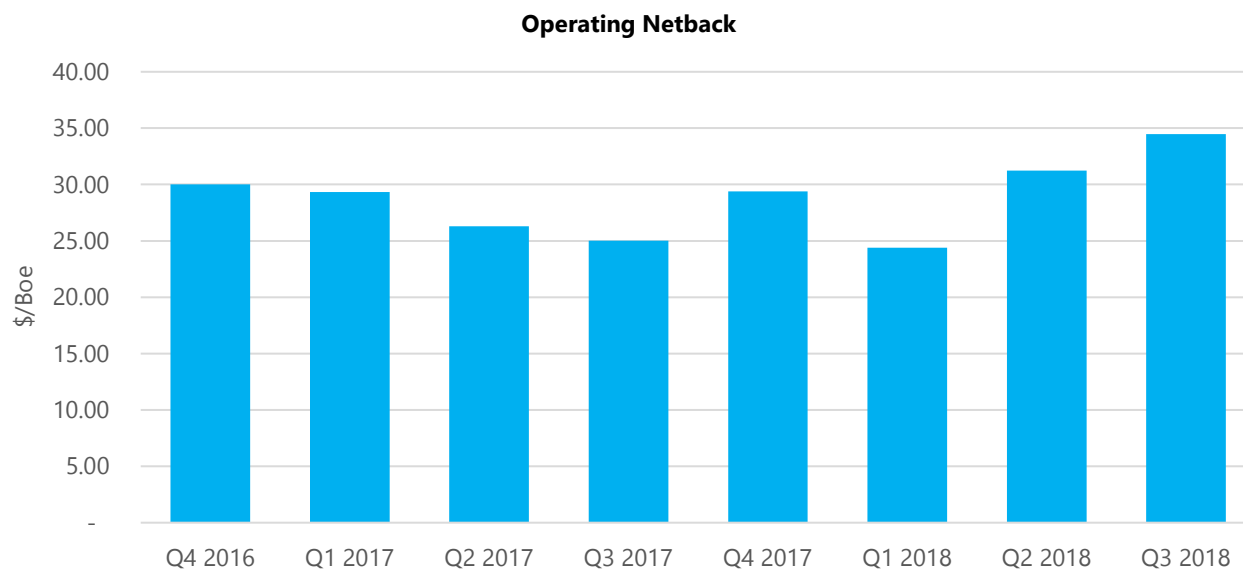


## Operating Netback

(\$/Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Average realized sales price	<b>48.29</b>	41.38	17	<b>46.30</b>	43.54	6
Royalties	<b>(4.57)</b>	(3.70)	24	<b>(4.59)</b>	(4.11)	12
Operating	<b>(7.09)</b>	(10.01)	(29)	<b>(10.10)</b>	(10.18)	(1)
Transportation	<b>(2.17)</b>	(2.65)	(18)	<b>(1.84)</b>	(2.46)	(25)
Operating netback <sup>(1)</sup>	<b>34.46</b>	25.02	38	<b>29.77</b>	26.79	11

(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 \$34.46 per Boe in the third quarter of 2018 compared to \$25.02 per Boe in the third quarter of 2017. For the nine months ended September 30, 2018, Altura's operating netback was \$29.77 per Boe compared to \$26.79 per Boe in the same period of 2017. The increases are a result of higher average realized sales prices and decreased per unit operating and transportation costs, partially offset by increased per unit royalty expenses.



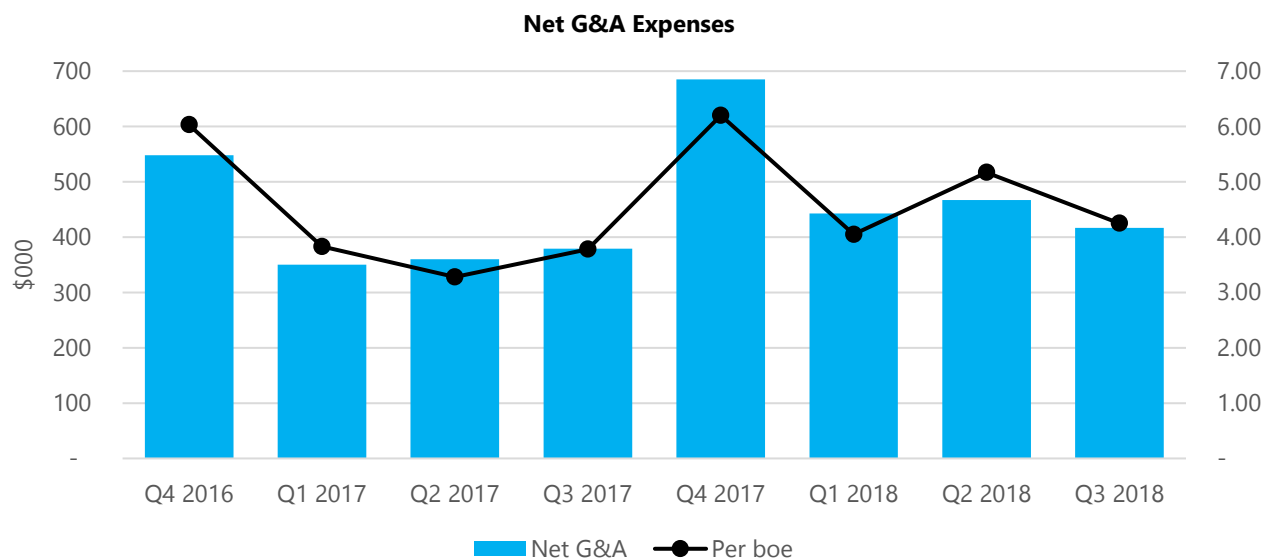
## General and Administrative ("G&A") Expenses

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Gross G&A	553	504	10	1,721	1,460	18
Capitalized G&A and overhead recoveries	(136)	(125)	9	(394)	(371)	6
Net G&A expenses	417	379	10	1,327	1,089	22
Net G&A per Boe	4.25	3.78	12	4.46	3.62	23

Net G&A expenses totaled \$417,000 and \$1,327,000 for the three and nine months ended September 30, 2018, respectively, compared to \$379,000 and \$1,089,000 for the same periods in 2017. The increases are primarily related to increased salaries and benefits, and professional services associated with the Corporation's growth.

Net G&A expenses increased 12 percent to \$4.25 per Boe for the third quarter of 2018 compared to the third quarter of 2017 due to the increased costs described above, coupled with lower production volumes due to the Provost Disposition.

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



The increased G&A observed in the fourth quarter of 2016 and the fourth quarter of 2017 primarily relate to additional costs associated with management bonuses.

## Exploration Expense

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Exploration expense	20	-	-	20	-	-
Exploration expense per Boe	0.21	-	-	0.07	-	-

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in the three and nine months ended September 30, 2018, relate to geophysical consulting incurred by the Corporation to evaluate Crown land sales.

## Interest and Financing Expenses

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Interest and financing expenses	2	6	(67)	137	42	226
Interest and financing expenses per Boe	0.03	0.06	(50)	0.46	0.14	229

Interest and financing expenses totaled \$2,000 and \$137,000 in the three and nine months ended September 30, 2018, respectively, compared to \$6,000 and \$42,000 in the same periods of 2017. Altura's credit facility was undrawn in the third quarter of 2018 and the interest expense relates to stand-by fees. The increase in the nine months ended September 30, 2018 is due to higher average bank debt in the first half of 2018 and higher interest rates associated with the increases in the prime lending rate. Altura's average interest rate in the nine months ended September 30, 2018 was 5.0 percent.

## Interest Income

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Interest income	33	-	-	49	18	172
Interest income per Boe	0.34	-	-	0.17	0.06	183

Interest income was \$33,000 and \$49,000 in the three and nine months ended September 30, 2018, compared to nil and \$18,000 in the same periods of 2017. The interest income in 2018 relates to cash from the Provost Disposition invested in an interest-bearing account with Altura's lender.

## Share-Based Compensation

(\$000)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Share-based compensation	234	275	(15)	791	822	(4)
Capitalized share-based compensation	(58)	(61)	(5)	(184)	(175)	5
Share-based compensation expense	182	214	(15)	607	647	(6)

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 \$182,000 and \$607,000 in the three and nine months ended September 30, 2018, respectively, compared to \$214,000 and \$647,000 in the same periods of 2017. The decrease in the three and nine months ended September 30, 2018, as compared to the same periods of 2017, reflects a decrease in performance warrant expense due to one-third of the total performance warrants being fully expensed in July 2018.

Altura's policy is to capitalize costs that are directly attributable to investments of property and equipment or exploration and evaluation assets. The increase in capitalized share-based compensation in the nine months ended September 30, 2018 is a result of increased employee time allocated to capital projects compared to the same period of 2017.

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

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
DD&A	1,725	1,545	12	4,988	5,410	(8)
DD&A per Boe	17.56	15.43	14	16.75	17.97	(7)

Altura uses proved and probable reserves to calculate DD&A expense. For the third quarter of 2018, DD&A increased 12 percent to \$1,725,000 compared to \$1,545,000 in the third quarter of 2017. On a per unit basis, DD&A increased 14 percent

to \$17.56 per Boe compared to \$15.43 per Boe in the third quarter of 2017. The increase is due mainly to the Provost Disposition which had lower reserves finding and development costs.

For the nine months ended September 30, 2018, DD&A decreased eight percent to \$4,988,000 compared to \$5,410,000 in the nine months ended September 30, 2017. On a per unit basis, DD&A was \$16.75 per Boe compared to \$17.97 per Boe in the same period of 2017.

### 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 September 30, 2018, Altura evaluated its developed and producing ("D&P") assets and exploration and evaluation ("E&E") assets on a cash generating unit basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded on Altura's D&P assets and E&E assets for the three months ended September 30, 2018.

### Transaction Costs on Acquisition

(\$000, except per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Transaction costs on acquisition	14	-	-	14	-	-

Transaction costs on acquisition incurred in the three and nine months ended September 30, 2018 relate to legal fees and environmental consulting associated with the Asset Acquisition.

### Gain on Disposition of Assets

(\$000)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Gain on disposition of assets	72	-	-	2,974	143	>500

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 three and nine months ended September 30, 2018.

On May 31, 2018, the Corporation closed the Provost Disposition of Altura's crude oil and natural gas assets in east central Alberta and Saskatchewan for \$27,262,000 of cash, net of customary post-closing adjustments and transaction costs of \$411,000. Altura reduced the gain by \$67,000 in the third quarter of 2018 from additional transaction costs and changes in estimated operating income (revenues less royalties, operating and transportation expenses) in the April 1–May 31, 2018 interim period. Altura recorded a gain of \$2,835,000 on the disposition in the nine months ended September 30, 2018.

In April 2017, the Corporation divested of undeveloped land for cash of \$750,000. Altura recorded a gain of \$143,000 on the disposition in the nine months ended September 30, 2017.

## Deferred Taxes

The Corporation recognized a deferred tax expense of \$359,000 and \$1,035,000 in the three and nine months ended September 30, 2018, respectively, compared to nil in the same periods of 2017. The increases are a result of the elimination of the Corporation's unrecognized deferred tax asset associated with the Provost Disposition.

Estimated tax pools at September 30, 2018 are as follows:

	(\$000)
Canadian development expenses	18,080
Canadian exploration expenses	2,962
Canadian oil and gas property expenses	-
Non-capital losses	9,354
Capital losses	173
Undepreciated capital cost	10,338
Share issue costs	67
	<b>40,974</b>

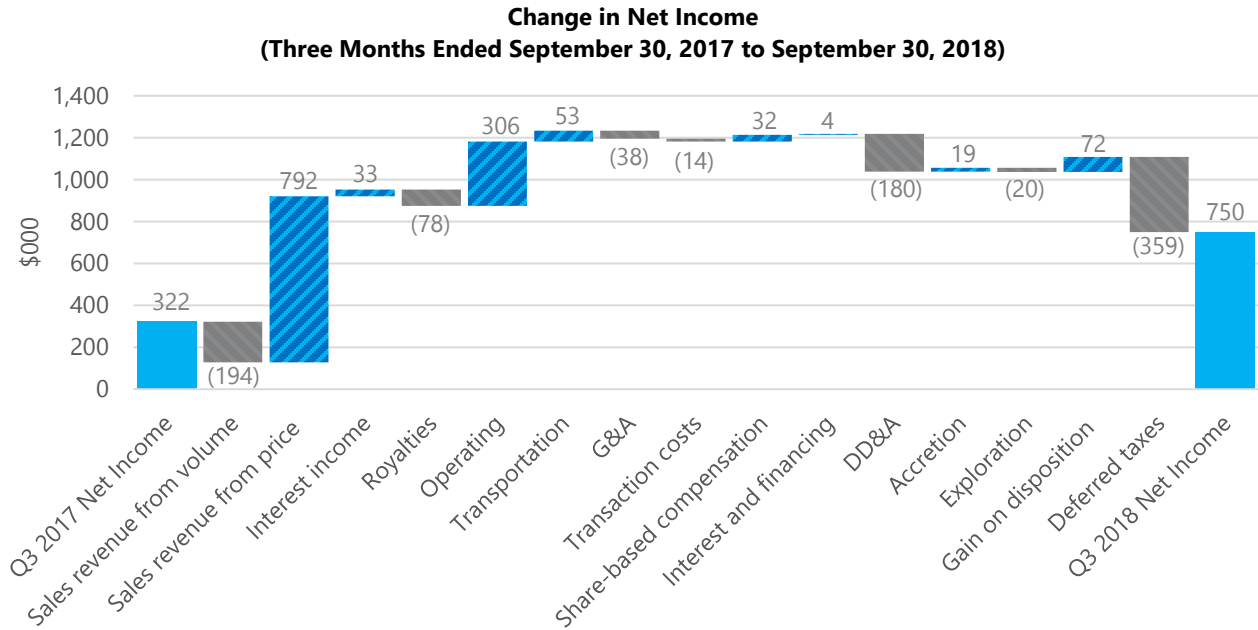
## Net Income and Adjusted Funds Flow

(\$000, except per share amounts and per Boe)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Net income	<b>750</b>	322	133	<b>3,677</b>	929	296
Per share – basic and diluted	<b>0.01</b>	-	-	<b>0.03</b>	0.01	200
Adjusted funds flow <sup>(1)</sup>	<b>2,977</b>	2,119	40	<b>7,430</b>	6,952	7
Per share <sup>(1)</sup> – basic and diluted	<b>0.03</b>	0.02	50	<b>0.07</b>	0.06	17
Adjusted funds flow per Boe <sup>(1)</sup>	<b>30.31</b>	21.18	43	<b>24.95</b>	23.09	8

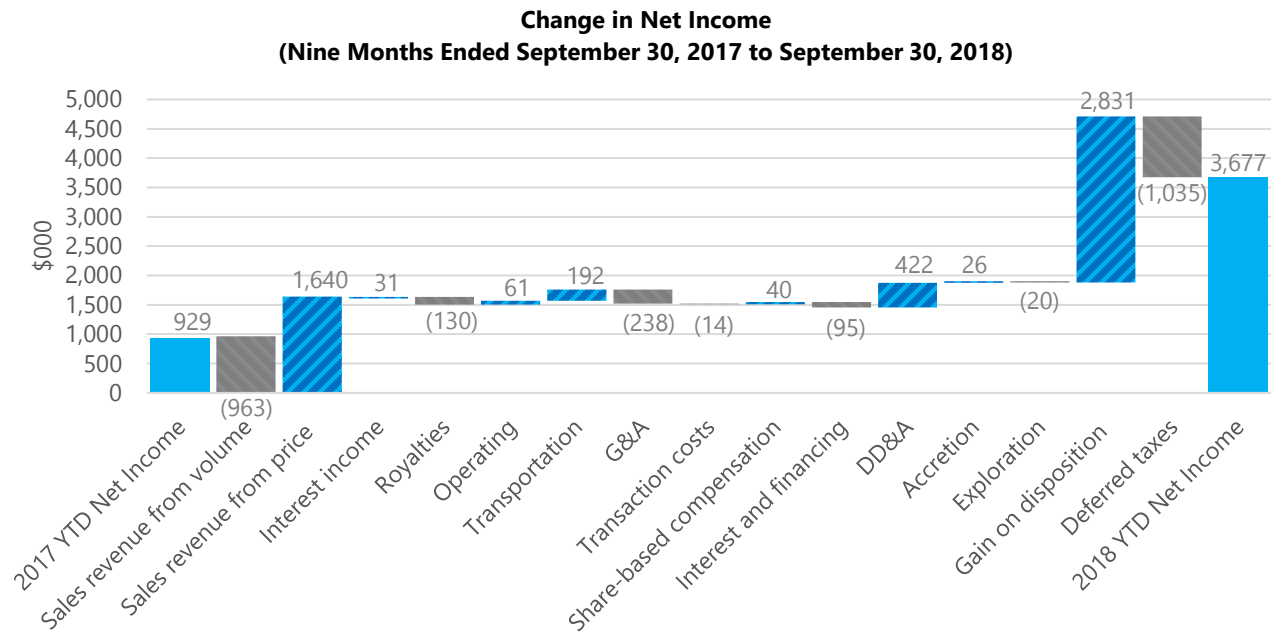
(1) Adjusted funds flow is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

## Net Income

In the third quarter of 2018, net income increased by \$428,000 to \$750,000 compared to \$322,000 in the same period of 2017. The increase primarily reflects increased revenue from higher realized oil prices coupled with lower operating and transportation costs and a gain on disposition. Lower medium oil production from the Provost Disposition, higher royalties, DD&A and deferred tax expenses partially offset the increase.



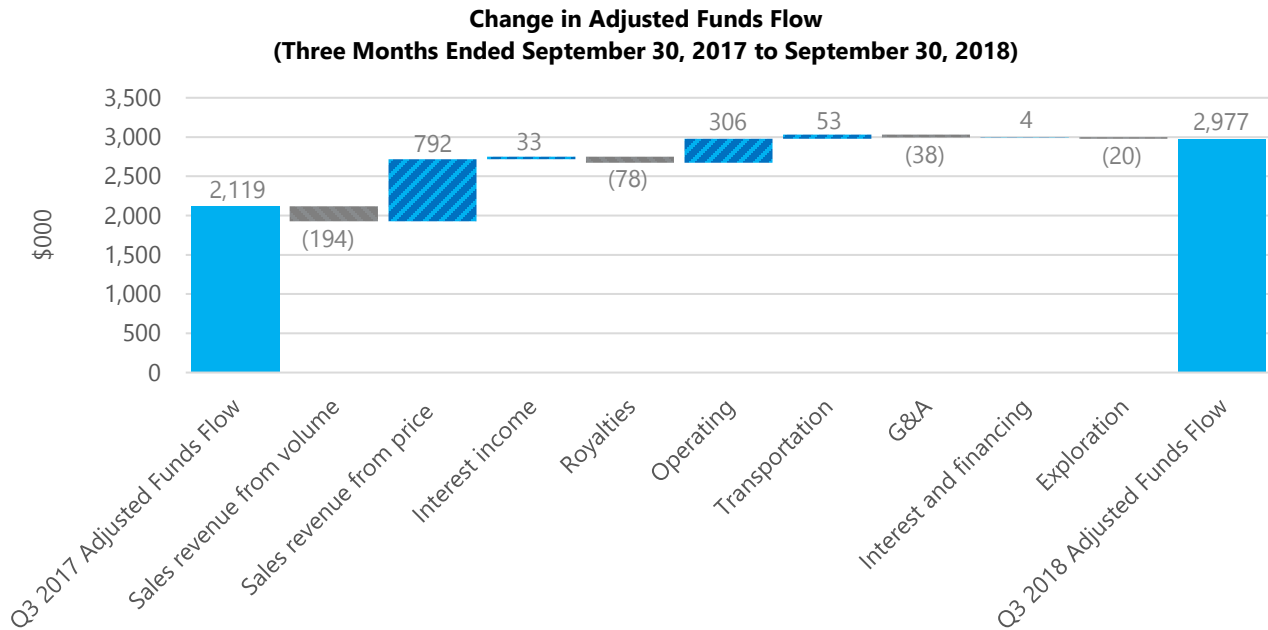
Net income for the nine months ended September 30, 2018 was \$3,677,000 compared to \$929,000 in the same period of 2017. The increase primarily reflects increased revenue from higher realized oil prices coupled with lower operating, transportation and DD&A expenses and an increased gain on disposition. Lower medium oil production from the Provost Disposition, higher royalties, G&A, interest and financing and deferred tax expenses partially offset the increase.



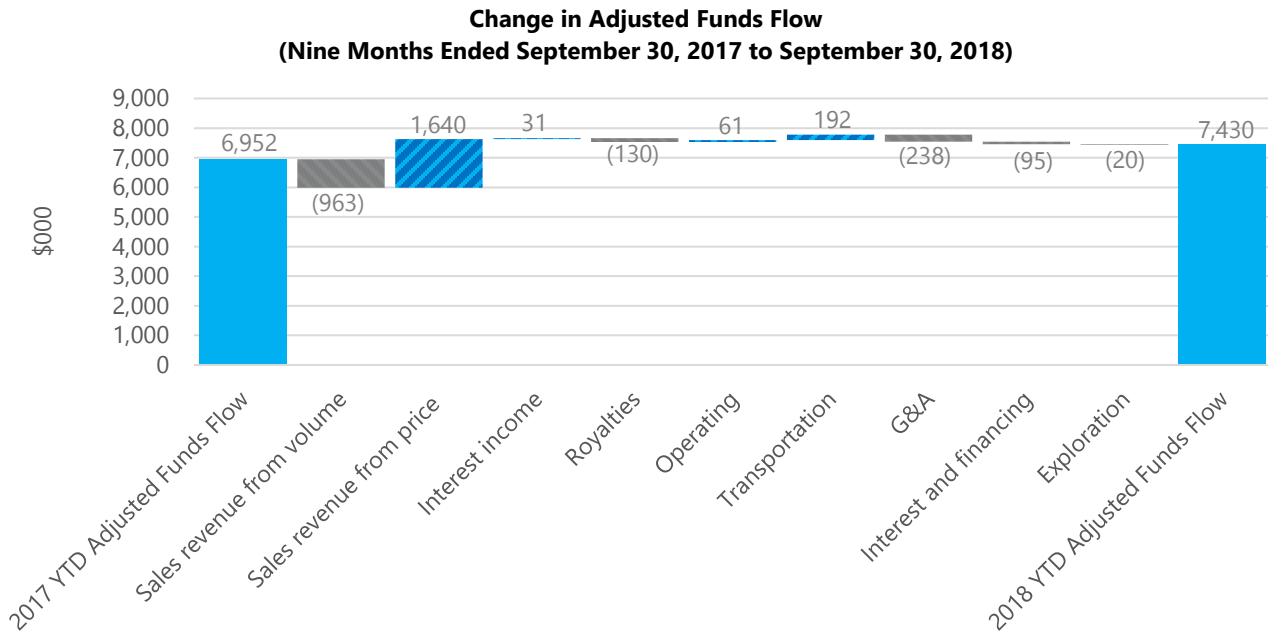


Adjusted Funds Flow

In the third quarter of 2018, adjusted funds flow increased by \$858,000 to \$2,977,000 compared to \$2,119,000 in the same period of 2017. The increase primarily reflects increased revenue from higher realized oil prices coupled with lower operating and transportation costs, partially offset by lower medium oil production from the Provost Disposition and higher royalties.



Year-to-date, adjusted funds flow increased by \$478,000 to \$7,430,000 compared to \$6,952,000 in the same period of 2017. The increase primarily reflects increased revenue from higher realized oil prices coupled with lower operating and transportation costs. Lower medium oil production from the Provost Disposition, higher royalties, G&A, and interest and financing expenses partially offset the increase.



## Capital Expenditures

(\$000)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% Change	2018	2017	% Change
Geological and geophysical	-	42	(100)	21	132	(84)
Land	73	387	(81)	266	1,725	(85)
Drilling and completions	14,443	3,688	292	22,260	11,066	101
Workovers	194	554	(65)	770	1,062	(27)
Equipping and tie-in	924	405	128	1,343	1,696	(21)
Facilities and pipelines	2,374	1,245	91	5,238	3,180	65
Other	(1,291)	118	(>500)	508	358	42
<b>Capital expenditures</b>	<b>16,717</b>	<b>6,439</b>	<b>160</b>	<b>30,406</b>	<b>19,219</b>	<b>58</b>
Property acquisitions	2,608	-	-	2,608	-	-
Property dispositions	29	-	-	(27,683)	(750)	>500
<b>Total capital expenditures, acquisitions and dispositions</b>	<b>19,354</b>	<b>6,439</b>	<b>201</b>	<b>5,331</b>	<b>18,469</b>	<b>(71)</b>

In the third quarter of 2018, Altura invested \$16.7 million on capital expenditures including drilling and completing six ERH wells at Leduc-Woodbend. Additionally, Altura completed the construction of its multi-well battery at Leduc-Woodbend which was commissioned in late July. The credit of \$1.3 million in the "Other" category includes \$1.5 million of well casing and tubulars that were pre-purchased in the second quarter for the summer drilling program and were transferred to drilling and equipping costs in the third quarter of 2018.

Year-to-date, Altura has invested \$30.4 million on capital expenditures. Drilling and completion projects include nine ERH wells at Leduc-Woodbend, eight of which have been completed, and one well at Macklin. The Corporation invested in key infrastructure at Leduc-Woodbend including the construction of a multi-well battery and a natural gas gathering pipeline that connects Altura's northern area production to a second third party gas plant.

On July 31, 2018, the Corporation closed an acquisition of 2.6 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 40 percent working interest in a producing oil unit in the Leduc-Woodbend area of Alberta from a third-party for cash consideration of \$2,608,000, net of customary post-closing adjustments.

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets in east central Alberta and Saskatchewan for \$27,262,000 of cash, net of customary post-closing adjustments and transaction costs of \$411,000.

## Decommissioning Liability

At September 30, 2018, Altura's decommissioning liability was \$4.0 million (December 31, 2017 - \$6.6 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors (2.0 percent) used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 2.4 percent (December 31, 2017 - 2.3 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 decrease in liability is due to the Provost Disposition on May 31, 2018, partially offset by the Asset Acquisition on July 31, 2018, new wells drilled in the first nine months of 2018, a revision of estimates and accretion expense.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the three and nine months ended September 30, 2018, accretion expense totaled \$19,000 and \$83,000 (September 30, 2017 - \$38,000 and \$109,000), respectively.

## CAPITAL RESOURCES AND LIQUIDITY

### Working Capital

The Corporation had a working capital deficit of \$1.9 million at September 30, 2018, compared to a working capital deficit of \$3.7 million at December 31, 2017. At September 30, 2018, the major components of Altura's current assets were cash and cash equivalents (34 percent) and revenue (43 percent) to be received from its oil and gas marketers in respect to September 2018 production. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectible. Current liabilities largely consist of trade and joint interest payables (30 percent) and accrued liabilities (70 percent) related to the Corporation's operations. The Corporation manages its working capital using a combination of its cash flow from operating activities and advances under its revolving operating demand loan 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 May 2018, in conjunction with the Disposition, and the borrowing base was revised to \$3.0 million from the previous \$10 million borrowing base. 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. As at September 30, 2018, the working capital ratio under the terms of the Credit Facility was calculated to be 1.1:1 (December 31, 2017 – 4.2:1). The next review date for the Credit Facility has been set for May 31, 2019.

As at September 30, 2018, the credit facility was undrawn (December 31, 2017 - \$4.3 million); however, the Corporation had outstanding letters of credit for \$160,000 (December 31, 2017 - \$201,000).

Altura's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserves evaluator.

### Shareholders' Equity

At September 30, 2018 there were 108,920,973 common shares outstanding, 9,749,879 performance warrants outstanding and 7,210,000 stock options outstanding. The number of common shares, performance warrants and stock options remain unchanged from December 31, 2017.

At November 8, 2018 the number of common shares, performance warrants and stock options outstanding remain unchanged from September 30, 2018.

### Liquidity

(\$000)	September 30, 2018	December 31, 2017
Current assets	5,271	2,401
Current liabilities	(7,158)	(6,130)
Net debt <sup>(1)</sup>	(1,887)	(3,729)
Credit Facility capacity <sup>(2)</sup>	2,840	9,799
Available funding	953	6,070

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

(2) As at September 30, 2018, \$160,000 in letters of credit were issued and outstanding (December 31, 2017 - \$201,000).

At September 30, 2018, Altura had \$953,000 available funding consisting of the Credit Facility, partially offset by the working capital deficit.

## Capital Resources

The Corporation increased its 2018 capital expenditure budget to \$33 million on May 15, 2018. As at September 30, 2018, \$30.4 million has been invested, with \$2.6 million forecasted for the fourth quarter of 2018. Additionally, Altura plans to close the Second Acquisition for \$787,000 in December 2018. Altura expects to have adequate liquidity to fund its remaining 2018 capital expenditure budget and the acquisition through a combination of cash flow from operating activities and available funding from its Credit Facility.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

(\$000)	Payments Due by Year							Total
	2018	2019	2020	2021	2022	2023	2024	
Office lease	-	42	167	170	182	190	143	894
Second Acquisition <sup>(1)</sup>	787	-	-	-	-	-	-	787
<b>Total contractual obligations and commitments</b>	<b>787</b>	<b>42</b>	<b>167</b>	<b>170</b>	<b>182</b>	<b>190</b>	<b>143</b>	<b>1,681</b>

- (1) On July 24, 2018 the Corporation entered into an agreement to purchase a 20 percent working interest in a producing oil unit in the Leduc-Woodbend area of Alberta from a third-party for cash consideration of \$1,050,000, subject to customary post-closing adjustments. The effective date of the transaction is July 1, 2018 and closing is expected to occur on December 1, 2018, subject to customary closing conditions. Altura paid a deposit of \$263,000 on July 24, 2018, which is being held in escrow until closing.

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2018				2017			2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>OPERATING</b>								
Average daily production								
Heavy oil (Bbls/d)	805	478	547	544	274	346	309	195
Medium oil (Bbls/d)	51	271	408	414	624	652	539	627
Natural gas (Mcf/d)	1,128	1,309	1,336	1,286	1,045	1,098	909	890
NGLs (Bbls/d)	23	23	37	30	16	25	16	17
Total (Boe/d)	1,067	991	1,215	1,202	1,088	1,205	1,015	988
Average realized sales price								
Heavy oil (\$/Bbl)	56.59	58.83	45.58	48.54	46.50	44.90	45.86	44.54
Medium oil (\$/Bbl)	66.74	67.64	51.06	55.73	47.61	50.64	53.47	51.37
Natural gas (\$/Mcf)	1.23	1.32	2.14	1.81	1.71	3.03	2.96	3.34
NGLs (\$/Bbl)	51.30	51.68	50.44	45.46	49.54	36.44	40.56	44.75
Total (\$/Boe)	48.29	49.87	41.58	44.22	41.38	43.77	45.62	45.20
(\$/Boe)								
Petroleum and natural gas sales	48.29	49.87	41.58	44.22	41.38	43.77	45.62	45.20
Royalty expenses	(4.57)	(4.69)	(4.54)	(3.24)	(3.70)	(4.41)	(4.20)	(3.67)
Operating costs	(7.09)	(12.26)	(11.01)	(9.72)	(10.01)	(10.52)	(9.96)	(8.99)
Transportation costs	(2.17)	(1.70)	(1.65)	(1.86)	(2.65)	(2.55)	(2.12)	(2.52)
Operating netback <sup>(1)</sup>	34.46	31.22	24.38	29.40	25.02	26.29	29.34	30.02
General and administrative	(4.25)	(5.17)	(4.05)	(6.20)	(3.78)	(3.28)	(3.83)	(6.03)
Exploration expense	(0.21)	-	-	-	-	-	-	-
Interest and financing expense	(0.03)	(0.88)	(0.51)	(0.38)	(0.06)	(0.27)	(0.07)	(0.05)
Interest income	0.34	0.18	-	-	-	0.03	0.16	0.25
Adjusted funds flow per Boe <sup>(1)</sup>	30.31	25.35	19.82	22.82	21.18	22.77	25.60	24.19
<b>FINANCIAL</b> (\$000, except per share)								
Petroleum and natural gas sales	4,741	4,497	4,547	4,893	4,143	4,800	4,165	4,106
Adjusted funds flow <sup>(1)</sup>	2,977	2,285	2,168	2,526	2,119	2,496	2,337	2,197
Per share – diluted <sup>(1)</sup>	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Cash flow from operating activities	831	2,313	2,443	1,940	2,545	2,269	2,794	1,683
Per share – diluted	0.01	0.02	0.02	0.02	0.02	0.02	0.03	0.02
Net income (loss)	750	2,750	177	(1,032)	322	594	13	264
Per share – diluted <sup>(2)</sup>	0.01	0.02	-	(0.01)	-	0.01	-	-
(\$000)								
Capital expenditures	16,717	6,344	7,345	3,083	6,439	3,828	8,952	6,945
Property acquisitions/(dispositions)	2,637	(27,712)	-	(355)	-	(750)	-	-
Total assets	54,793	49,957	55,973	50,807	49,848	46,890	49,083	45,915
Net debt (working capital surplus) <sup>(1)</sup>	1,887	(14,761)	8,561	3,729	2,881	(1,156)	(2,436)	(8,455)
Shareholders' equity	42,633	41,643	38,616	38,165	38,933	38,336	37,468	37,182
Common shares outstanding (000)								
Weighted average for the period - basic <sup>(2)</sup>	108,921	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted <sup>(2)</sup>	112,281	110,546	109,133	109,570	108,922	109,082	109,289	108,921
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 fourth quarter of 2016 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 third quarter of 2017 is a result of natural production declines with no new wells being added in the quarter. 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 quarter of 2018 with five new Leduc-Woodbend wells being brought on production in the quarter.

Capital expenditures in 2017 included drilling eight wells, land acquisitions and pipeline construction and facility upgrades. 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 completed the construction of a multi-well battery at Leduc-Woodbend.

Altura recorded net income in the fourth quarter of 2016, and the first three quarters of 2017 due to increased petroleum and natural gas sales and lower relative cash and non-cash costs. In the fourth quarter of 2017, Altura recorded an impairment expense for \$1.5 million resulting in a loss. In the second quarter of 2018, Altura recorded net income of \$2.8 million mainly due to a gain on disposition of assets, partially offset by a deferred tax expense. In the third quarter of 2018, the Corporation recorded net income of \$0.8 million.

## **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, 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**

### **IFRS 15**

The Corporation adopted IFRS 15, "Revenue from Contracts with Customers" on January 1, 2018. Altura used the modified retrospective adoption approach to adopt the new standard. The Corporation reviewed its revenue contracts with customers using the IFRS 15 five-step model, which resulted in a change in accounting of certain pipeline tariffs, impacting the September 30, 2017 comparative periods. The change in accounting for certain tariffs resulted in revenue and transportation costs both decreasing by \$24,000 and \$55,000 in the three and nine months ended September 30, 2017, with no impact on net income or the Corporation's financial position.

### **IFRS 9**

The Corporation adopted IFRS 9, "Financial Instruments" on January 1, 2018. The transition to IFRS 9 had no material effect on the Corporation's financial statements. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment of financial assets: IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Cash and cash equivalents, if any, accounts receivable and deposits continue to be measured at amortized cost and are now classified as "amortized cost". There was no change to the Corporation's classification of accounts payable and accrued liabilities and bank debt which are classified as "other financial liabilities" and are measured at amortized cost. The Corporation has not designated any financial instruments as FVOCI or FVTPL, nor does Altura use hedge accounting.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Altura on January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings. Altura plans to use the modified retrospective approach in its adoption of IFRS 16.

Altura anticipates that the most significant impact of adopting IFRS 16 will be the recognition of right-of-use ("ROU") assets and corresponding lease obligations on its operating lease for office space. In addition, the nature of the expenses related to this lease will change as IFRS 16 replaces the straight-line operating lease expense with depreciation expense on the ROU asset and a finance charge on the lease obligation. On adoption of IFRS 16, the Corporation will recognize lease liabilities in relation to leases under the principles of the new standard. These liabilities will be measured at the present value of the remaining lease payments, discounted using Altura's incremental borrowing rate as at January 1, 2019. The associated ROU asset will initially be measured at the amount equal to the lease liability on January 1, 2019 with no impact on retained earnings.

## **ADVISORIES**

### **Non-GAAP Measures**

This MD&A and third 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 third 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 15. The following schedule sets out the reconciliation of net income to adjusted funds flow and cash flow from operating activities for the reporting periods and the comparable prior periods:

(\$000)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Net income	750	322	3,677	929
Adjusted for the following non-cash items				
Deferred tax expense	359	-	1,035	-
Depletion, depreciation and amortization	1,725	1,545	4,988	5,410
Accretion of decommissioning liability	19	38	83	109
Share-based compensation	182	214	607	647
Gain on disposition of assets	(72)	-	(2,974)	(143)
Transaction costs on acquisition	14	-	14	-
<b>Adjusted funds flow</b>	<b>2,977</b>	<b>2,119</b>	<b>7,430</b>	<b>6,952</b>
Decommissioning liabilities settled	(21)	(27)	(21)	(38)
Transaction costs on property acquisition	(14)	-	(14)	-
Transaction costs on property disposition	(14)	-	(411)	-
Changes in non-cash operating working capital	(2,097)	453	(1,397)	694
<b>Cash flow from operating activities</b>	<b>831</b>	<b>2,545</b>	<b>5,587</b>	<b>7,608</b>

#### Net Debt

Management views net debt as a key industry benchmark and a measure to assess the Corporation's financial position and liquidity. Net debt is equivalent to working capital deficit. Altura's net debt is disclosed in in the "Liquidity" section of this MD&A on page 19.

#### Operating Netback

Altura calculates operating netback on a per boe basis as petroleum and natural gas sales less royalties, operating and transportation costs. Management feels that operating netback is a key industry benchmark and a measure of performance for Altura that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a per Boe basis assists management and investors with evaluating operating performance on a comparable basis. Altura's operating netback is disclosed in the "Operating Netback" section of this MD&A on page 11.

### **Oil and Gas Advisories**

#### ***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 third 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 third quarter report contains forward-looking information and statements pertaining to:

- Altura's business plans and strategy including its 2018 drilling, completion and on-production plans;
- the anticipated closing date of the 20 percent working interest in the Second Acquisition;
- forecasted 2018 capital spending;
- forecasted 2018 exit production rate range;
- plan to provide guidance on its 2019 capital program in early 2019;
- forecasted royalty rate range for the fourth quarter of 2018; and
- forecasted operating and transportation costs for the fourth quarter of 2018.

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

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

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

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

- changes in commodity prices;
- changes in the demand for or supply of Altura's products;
- unanticipated operating results or production declines;
- changes in tax or environmental laws, royalty rates or other regulatory matters;
- changes in development plans of Altura or by third party operators of Altura's properties;
- increased debt levels or debt service requirements;
- inaccurate estimation of Altura's oil and gas reserve and resource volumes;
- limited, unfavorable or a lack of access to capital markets;
- increased costs;
- a lack of adequate insurance coverage;
- the impact of competitors; and
- certain other risks detailed from time to time in Altura's public documents.

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

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

As at

(\$000)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	1,770	-
Accounts receivable (note 11)	3,305	2,297
Prepaid expenses and deposits	196	104
	5,271	2,401
Deposit (note 13)	263	345
Exploration and evaluation (note 5)	4,013	4,517
Property and equipment (note 6)	45,246	43,544
<b>Total assets</b>	<b>54,793</b>	<b>50,807</b>
<b>LIABILITIES</b>		
Current liabilities		
Bank debt (note 7)	-	4,252
Accounts payable and accrued liabilities	7,143	1,812
Current portion of decommissioning liability (note 8)	15	66
	7,158	6,130
Decommissioning liability (note 8)	3,967	6,512
Deferred taxes	1,035	-
<b>Total liabilities</b>	<b>12,160</b>	<b>12,642</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	37,712	37,712
Performance warrants (note 9e)	2,067	1,605
Contributed surplus	3,835	3,506
Deficit	(981)	(4,658)
<b>Total shareholders' equity</b>	<b>42,633</b>	<b>38,165</b>
<b>Total liabilities and shareholders' equity</b>	<b>54,793</b>	<b>50,807</b>
Commitments and contingencies (note 13)		

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(\$000, except per share amounts)	Three months ended		Nine months ended	
	September 30 2018	2017	September 30 2018	2017
<b>REVENUE</b>				
Petroleum and natural gas sales (note 10)	4,741	4,143	13,785	13,108
Royalties	(449)	(371)	(1,368)	(1,238)
Interest income	33	-	49	18
	<b>4,325</b>	3,772	<b>12,466</b>	11,888
<b>EXPENSES</b>				
Operating	696	1,002	3,005	3,066
Transportation	213	266	547	739
General and administrative	417	379	1,327	1,089
Transaction costs on acquisition	14	-	14	-
Exploration expense	20	-	20	-
Share-based compensation (note 9)	182	214	607	647
Interest and financing charges	2	6	137	42
Depletion, depreciation and amortization (notes 5 and 6)	1,725	1,545	4,988	5,410
Accretion of decommissioning liability (note 8)	19	38	83	109
	<b>3,288</b>	3,450	<b>10,728</b>	11,102
<b>OTHER INCOME</b>				
Gain on disposition of assets (note 4)	72	-	2,974	143
Net income before taxes	<b>1,109</b>	322	<b>4,712</b>	929
Deferred tax expense	359	-	1,035	-
Net income and comprehensive income	<b>750</b>	322	<b>3,677</b>	929
Net income per share, (note 9d)				
Basic	<b>0.01</b>	-	<b>0.03</b>	0.01
Diluted	<b>0.01</b>	-	<b>0.03</b>	0.01

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(\$000)	Share capital	Performance warrants	Contributed surplus	Deficit	Total Equity
Balance, December 31, 2016	37,712	938	3,087	(4,555)	37,182
Share-based compensation expense (note 9)	-	411	236	-	647
Share-based compensation capitalized (note 9)	-	89	86	-	175
Net income for period	-	-	-	929	929
Balance, September 30, 2017	37,712	1,438	3,409	(3,626)	38,933
<b>Balance, December 31, 2017</b>	<b>37,712</b>	<b>1,605</b>	<b>3,506</b>	<b>(4,658)</b>	<b>38,165</b>
Share-based compensation expense (note 9)	-	374	233	-	607
Share-based compensation capitalized (note 9)	-	88	96	-	184
Net income for period	-	-	-	3,677	3,677
<b>Balance, September 30, 2018</b>	<b>37,712</b>	<b>2,067</b>	<b>3,835</b>	<b>(981)</b>	<b>42,633</b>

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$000)	Three months ended		Nine months ended	
	September 30 2018	2017	September 30 2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net income for period	750	322	3,677	929
Items not involving cash:				
Deferred tax expense	359	-	1,035	-
Depletion, depreciation and amortization (notes 5 and 6)	1,725	1,545	4,988	5,410
Accretion of decommissioning liability (note 8)	19	38	83	109
Share-based compensation (note 9)	182	214	607	647
Gain on disposition of assets (note 4)	(72)	-	(2,974)	-
Transaction costs on property dispositions (note 4)	(14)	-	(411)	(143)
Decommissioning liabilities settled (note 8)	(21)	(27)	(21)	(38)
Change in non-cash working capital (note 12)	(2,097)	453	(1,397)	694
	831	2,545	5,587	7,608
<b>CASH FLOW FROM (USED IN) FINANCING ACTIVITIES</b>				
Change in bank debt (note 7)	-	37	(4,252)	37
	-	37	(4,252)	37
<b>CASH FLOW FROM (USED IN) INVESTING ACTIVITIES</b>				
Property and equipment expenditures	(16,644)	(6,062)	(29,795)	(12,922)
Exploration and evaluation asset expenditures	(73)	(377)	(266)	(6,297)
Property acquisitions (note 4)	(2,608)	-	(2,608)	-
Property dispositions (note 4)	(29)	-	27,683	750
Long-term deposit	(263)	-	(263)	-
Change in non-cash working capital (note 12)	504	2,803	5,684	2,165
	(19,113)	(3,636)	435	(16,304)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>				
	(18,282)	(1,054)	1,770	(8,659)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	20,052	1,054	-	8,659
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	1,770	-	1,770	-
<b>Cash and cash equivalents consists of:</b>				
Cash in bank account	1,770	-	1,770	-
Cash in short-term investments	-	-	-	-
Cash interest paid	2	6	137	42

See accompanying notes to the interim condensed consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As at and for the three and nine months ended September 30, 2018 and 2017

---

## 1. REPORTING ENTITY

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

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

These interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2017, except as described below in note 3. In the opinion of management, these financial statements contain all adjustments necessary to present fairly Altura's financial position as at September 30, 2018 and the results of its operations and cash flows for the three and nine months ended September 30, 2018 and 2017. 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, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on November 8, 2018.

### (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) 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, 2017.

### 3. CHANGES IN ACCOUNTING POLICIES

#### (a) IFRS 15

The Corporation adopted IFRS 15, "Revenue from Contracts with Customers" on January 1, 2018. Altura used the modified retrospective adoption approach to adopt the new standard. The Corporation reviewed its revenue contracts with customers using the IFRS 15 five-step model, which resulted in a change in accounting of certain pipeline tariffs, impacting the September 30, 2017 comparative periods. The change in accounting for certain tariffs resulted in revenue and transportation costs both decreasing by \$24,000 and \$55,000 in the three and nine months ended September 30, 2017, with no impact on net income or the Corporation's financial position.

The additional disclosures required by IFRS 15 are detailed in note 10.

#### *Revenue recognition policy*

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 3rd 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) IFRS 9

The Corporation adopted IFRS 9, "Financial Instruments" on January 1, 2018. The transition to IFRS 9 had no material effect on the Corporation's financial statements. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment of financial assets: IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Cash and cash equivalents, if any, accounts receivable and deposits continue to be measured at amortized cost and are now classified as "amortized cost". There was no change to the Corporation's classification of accounts payable and accrued liabilities and bank debt which are classified as "other financial liabilities" and are measured at amortized cost. The Corporation has not designated any financial instruments as FVOCI or FVTPL, nor does Altura use hedge accounting.

#### (c) IFRS 16

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Altura on January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings. Altura plans to use the modified retrospective approach in its adoption of IFRS 16.

Altura anticipates that the most significant impact of adopting IFRS 16 will be the recognition of right-of-use ("ROU") assets and corresponding lease obligations on its operating lease for office space. In addition, the nature of the expenses related to this lease will change as IFRS 16 replaces the straight-line operating lease expense



with depreciation expense on the ROU asset and a finance charge on the lease obligation. On adoption of IFRS 16, the Corporation will recognize lease liabilities in relation to leases under the principles of the new standard. These liabilities will be measured at the present value of the remaining lease payments, discounted using Altura's incremental borrowing rate as at January 1, 2019. The associated ROU asset will initially be measured at the amount equal to the lease liability on January 1, 2019 with no impact on retained earnings.

#### 4. ACQUISITIONS AND DISPOSITIONS

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 are recorded at fair value.

The asset acquired has contributed revenues of \$273,000 and operating income of \$74,000 since July 31, 2018. Had the acquisition closed on January 1, 2018, estimated pro forma revenues would have been \$14.8 million and estimated net income before taxes would have been \$5.0 million for the nine months ended September 30, 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.

<b>Net assets acquired</b>	<b>(\$000)</b>
Exploration and evaluation <sup>(1)</sup>	511
Property and equipment <sup>(2)</sup>	2,659
Prepaid expenses and deposits	56
Decommissioning liability <sup>(3)</sup>	(618)
	<b>2,608</b>
<b>Consideration</b>	
Cash	<b>2,608</b>

(1) Fair value based on recent land sale activity in the area.

(2) Fair value based on an internal reserves evaluation which was prepared by a member of Altura's management who is a qualified reserves evaluator in accordance with National Instrument 51-101 effective August 1, 2018.

(3) Fair value using a credit adjusted discount rate of 10%.

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

In 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 three and nine months ended September 30, 2018.

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 \$27,262,000 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, \$29,326,000 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 \$2,835,000 on the Provost Disposition in the nine months ended September 30, 2018.

In September 2017, the Corporation entered into a non-cash asset exchange arrangement in which Altura exchanged undeveloped land and a non-producing wellbore in the Provost area of Alberta for undeveloped land in the Macklin area of Saskatchewan. Altura recorded \$475,000 to E&E asset acquisitions, \$36,000 to E&E asset dispositions, \$524,000 to D&P asset dispositions and reduced the decommissioning liability by \$85,000 relating to the transfer of the wellbore. The fair market value of the assets exchanged approximated net book value, therefore, no gain or loss was recorded on the transaction.

In April 2017, the Corporation divested of undeveloped land with a net book value of \$607,000 for cash of \$750,000. Altura recorded a gain of \$143,000 on the disposition in the nine months ended September 30, 2017.

## 5. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2016	<b>7,865</b>
Additions	6,477
Acquisition	475
Dispositions	(643)
Transfer to property and equipment net of depletion (note 6)	(9,695)
Change in decommissioning costs	257
Depletion	(219)
<b>Balance, December 31, 2017</b>	<b>4,517</b>
Additions	266
Acquisition (note 4)	511
Disposition (note 4)	(1,071)
Transfer to property and equipment (note 6)	(210)
<b>Balance, September 30, 2018</b>	<b>4,013</b>

E&E assets consist of the Corporation's projects that have yet to be established as technically feasible and commercially viable. Additions represent Altura's share of costs incurred on E&E assets during the periods. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of nil in the three and nine months ended September 30, 2018 (September 30, 2017 – nil and \$190,000, respectively).

## 6. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

<b>Cost</b> (\$000)	<b>Developed and Producing Assets</b>	<b>Administrative Assets</b>	<b>Total</b>
Balance, December 31, 2016	37,537	40	37,577
Additions	16,061	8	16,069
Disposition	(1,671)	-	(1,671)
Transfers from E&E assets (note 5)	10,080	-	10,080
Change in decommissioning costs	93	-	93
Balance, December 31, 2017	62,100	48	62,148
Additions	30,210	114	30,324
Acquisition (note 4)	2,659	-	2,659
Dispositions (note 4)	(47,623)	-	(47,623)
Transfers from E&E assets (note 5)	210	-	210
Change in decommissioning costs	2,823	-	2,823
<b>Balance, September 30, 2018</b>	<b>50,379</b>	<b>162</b>	<b>50,541</b>
<b>Depletion, depreciation and impairment</b>			
(\$000)			
Balance, December 31, 2016	(10,517)	(17)	(10,534)
Depletion, depreciation and amortization	(6,979)	(8)	(6,987)
Disposition	816	-	816
Transfers from E&E assets (note 5)	(385)	-	(385)
Impairment	(1,514)	-	(1,514)
Balance, December 31, 2017	(18,579)	(25)	(18,604)
Depletion, depreciation and amortization	(4,974)	(14)	(4,988)
Dispositions	18,297	-	18,297
<b>Balance, September 30, 2018</b>	<b>(5,256)</b>	<b>(39)</b>	<b>(5,295)</b>
<b>Carry amounts</b>			
(\$000)			
As at December 31, 2017	43,521	23	43,544
<b>As at September 30, 2018</b>	<b>45,123</b>	<b>123</b>	<b>45,246</b>

Estimated future development costs of \$9.2 million (December 31, 2017 – \$40.2 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 \$194,000 and \$578,000 in the three and nine months ended September 30, 2018 (September 30, 2017 – \$186,000 and \$328,000), respectively.

## 7. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in May 2018, in conjunction with the Disposition (note 4), and the borrowing base was revised to \$3.0 million from the previous \$10 million borrowing base. 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 \$30.0 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 September 30, 2018, the working capital ratio as defined was 1.1:1 (December 31, 2017 – 4.2:1). The next review date for the Credit Facility has been set for May 31, 2019.

As at September 30, 2018, the credit facility was undrawn (December 31, 2017 - \$4.3 million), however, the Corporation had outstanding letters of credit for \$160,000 (December 31, 2017 - \$201,000).

## 8. 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 September 30, 2018 to be approximately \$4.3 million (December 31, 2017 – \$6.6 million) with the majority of costs anticipated to be incurred between 2036 and 2042. A risk-free discount rate of 2.4 percent (December 31, 2017 – 2.3 percent) and an inflation rate of 2.0 percent (December 31, 2017 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Nine months ended September 30, 2018	Year ended December 31, 2017
Balance, beginning of period	6,578	6,181
Additions	923	595
Liabilities disposed (note 4)	(6,099)	(45)
Liabilities acquired (note 4)	618	-
Change in estimates <sup>(1)</sup>	227	(245)
Revaluation of liabilities acquired <sup>(2)</sup>	1,673	-
Decommissioning liabilities settled	(21)	(54)
Accretion	83	146
Balance, end of period	3,982	6,578
Expected to be incurred within one year	15	66
Expected to be incurred beyond one year	3,967	6,512

(1) The change in estimates consists of a change in the risk-free discount rate of \$17,000 credit (December 31, 2017 - \$32,000) and a change in abandonment and remediation cost estimates and future abandonment dates of \$244,000 (December 31, 2017 - \$277,000 credit).

(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%.

## 9. SHARE CAPITAL

(a) Authorized:

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

(b) Issued and outstanding:

	Number of common shares	Amount (\$000)
<b>Balance, December 31, 2016, December 31, 2017, and September 30, 2018</b>	<b>108,920,973</b>	<b>37,712</b>

(c) Stock options:

The Corporation has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10 percent of the outstanding shares of Altura and the maximum term of options granted is five years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. As at September 30, 2018 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the three and nine months ended September 30, 2018 and 2017.

A summary of the Corporation's outstanding stock options at September 30, 2018 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2016	5,570,000	0.31
Granted	1,640,000	0.41
<b>Balance, December 31, 2017 and September 30, 2018</b>	<b>7,210,000</b>	<b>0.33</b>

The range of exercise prices for stock options outstanding and exercisable under the plan at September 30, 2018 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	0.41	7,210,000	2.9	0.33	3,123,328	2.4	0.32
		<b>7,210,000</b>	<b>2.9</b>	<b>0.33</b>	<b>3,123,328</b>	<b>2.4</b>	<b>0.32</b>

The Corporation's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the three and nine months ended September 30, 2018 was \$111,000 and \$329,000 (September 30, 2017 – \$108,000 and \$322,000) of which \$34,000 and \$96,000 was capitalized (September 30, 2017 – \$29,000 and \$86,000), respectively.

(d) Weighted average common shares:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Basic	<b>108,920,973</b>	108,920,973	<b>108,920,973</b>	108,920,973
Diluted	<b>112,281,480</b>	108,921,532	<b>110,474,810</b>	109,019,054

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

For the three months ended September 30, 2018, no stock options or performance warrants were excluded from the diluted weighted average number of common shares (September 30, 2017 – 5,220,000 stock options and 9,749,879 performance warrants were excluded as they were anti-dilutive).

For nine months ended September 30, 2018, 1,640,000 stock options and 9,749,879 performance warrants were excluded from the diluted weighted average number of common shares as they were anti-dilutive (September 30, 2017 – 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at September 30, 2018 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
<b>Balance, December 31, 2016, December 31, 2017 and September 30, 2018</b>	<b>9,749,879</b>	<b>0.449</b>

The performance warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding \$0.675, an additional one-third upon the trading price equaling or exceeding \$0.901 and a final one-third upon the trading price equaling or exceeding \$1.124. The performance warrants expire on July 31, and August 28, 2020. As at September 30, 2018 no performance warrants are exercisable. On the grant date, the weighted average fair value of \$0.27 per performance warrant was determined

using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based compensation relating to performance warrants for the three and nine months ended September 30, 2018 was \$129,000 and \$462,000 (September 30, 2017 – \$167,000 and \$500,000) of which \$24,000 and \$88,000 was capitalized (September 30, 2017 – \$32,000 and \$89,000), respectively. The fair value of the performance warrants is being expensed over the expected life.

## 10. REVENUE

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

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

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Heavy oil	4,190	1,172	8,996	3,859
Medium oil	315	2,732	3,861	8,326
Natural gas	128	164	544	709
Natural gas liquids	108	75	384	214
Petroleum and natural gas sales	4,741	4,143	13,785	13,108

## 11. 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 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, and accounts receivable.

The majority of the credit exposure on accounts receivable at September 30, 2018 pertains to revenue for accrued September 2018 production volumes. Altura primarily transacts with six oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. A significant portion of Altura's accounts receivable is carried by three marketing companies with sound financial positioning. At September 30, 2018, 29 percent, 18 percent and 11 percent of total outstanding accounts receivable pertains to these companies. Additionally, 23 percent of total outstanding accounts receivable pertains to the Canada Revenue Agency regarding GST filings. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at September 30, 2018. For the nine months ended September 30, 2018, the Corporation received approximately 24 percent, 24 percent and 10 percent of its revenue from three marketing companies (September 30, 2017 – 70 percent and 18 percent from two marketing companies).

At September 30, 2018, the Corporation's trade receivables have been aged as follows:

As at (\$000)	September 30, 2018	December 31, 2017
Current	2,848	1,949
31 – 60 days	-	75
61 – 90 days	344	178
> 90 days	113	95
Allowance for doubtful accounts	-	-
<b>Total</b>	<b>3,305</b>	<b>2,297</b>

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

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Provided by (used in):				
Accounts receivable	(2,389)	434	(1,008)	922
Prepaid expenses and deposits	(31)	43	(92)	(32)
Accounts payable and accrued liabilities	771	2,779	5,331	1,969
Prepaid expenses acquired in acquisition (note 4)	56	-	56	-
	<b>(1,593)</b>	<b>3,256</b>	<b>4,287</b>	<b>2,859</b>
Provided by (used in):				
Operating activities	(2,097)	453	(1,397)	694
Investing activities	504	2,803	5,684	2,165
	<b>(1,593)</b>	<b>3,256</b>	<b>4,287</b>	<b>2,859</b>

## 13. COMMITMENTS AND CONTINGENCIES

The following table summarizes Altura's contractual obligations and commitments as at September 30, 2018:

(\$000)	Payments Due by Year							Total
	2018	2019	2020	2021	2022	2023	2024	
Office lease	-	42	167	170	182	190	143	894
Asset acquisition <sup>(1)</sup>	787	-	-	-	-	-	-	787
<b>Total contractual obligations and commitments</b>	<b>787</b>	<b>42</b>	<b>167</b>	<b>170</b>	<b>182</b>	<b>190</b>	<b>143</b>	<b>1,681</b>

(1) On July 24, 2018 the Corporation entered into an agreement to purchase a 20 percent working interest in a producing oil unit in the Leduc-Woodbend area of Alberta from a third-party for cash consideration of \$1,050,000, subject to customary post-closing adjustments. The effective date of the transaction is July 1, 2018 and closing is expected to occur on December 1, 2018, subject to customary closing conditions. Altura paid a deposit of \$263,000 on July 24, 2018, which is being held in escrow until closing.

# 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

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

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**

