

# 2017 FOURTH QUARTER REPORT



## OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Year ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
<b>OPERATING</b>					
Average daily production					
Medium oil (bbls/d)	<b>414</b>	624	627	<b>557</b>	423
Heavy oil (bbls/d)	<b>544</b>	274	195	<b>369</b>	59
Natural gas (mcf/d)	<b>1,286</b>	1,045	890	<b>1,085</b>	501
NGLs (bbls/d)	<b>30</b>	16	17	<b>22</b>	8
Total (boe/d)	<b>1,202</b>	1,088	988	<b>1,128</b>	574
Total boe/d per million shares – basic	<b>11.0</b>	10.0	9.1	<b>10.4</b>	5.3
<b>Average realized prices</b>					
Medium oil (\$/bbl)	<b>55.73</b>	47.61	51.37	<b>51.41</b>	44.37
Heavy oil (\$/bbl)	<b>48.54</b>	46.50	44.54	<b>46.75</b>	42.42
Natural gas (\$/mcf)	<b>1.81</b>	1.71	3.34	<b>2.33</b>	2.65
NGLs (\$/bbl)	<b>45.46</b>	49.54	44.75	<b>42.79</b>	39.60
Total (\$/boe)	<b>44.22</b>	41.38	45.20	<b>43.72</b>	39.95
<b>NETBACK (\$/boe)</b>					
Petroleum and natural gas sales	<b>44.22</b>	41.38	45.20	<b>43.72</b>	39.95
Royalties	<b>(3.24)</b>	(3.70)	(3.67)	<b>(3.88)</b>	(2.90)
Operating	<b>(9.72)</b>	(10.01)	(8.99)	<b>(10.06)</b>	(9.09)
Transportation	<b>(1.86)</b>	(2.65)	(2.52)	<b>(2.29)</b>	(2.67)
Operating netback <sup>(1)</sup>	<b>29.40</b>	25.02	30.02	<b>27.49</b>	25.29
General and administrative	<b>(6.20)</b>	(3.78)	(6.03)	<b>(4.31)</b>	(8.16)
Exploration expense	-	-	-	-	(0.32)
Interest and financing expense	<b>(0.38)</b>	(0.06)	(0.05)	<b>(0.20)</b>	(0.17)
Interest income	-	-	0.25	<b>0.04</b>	0.76
Corporate netback <sup>(1)</sup>	<b>22.82</b>	21.18	24.19	<b>23.02</b>	17.40
<b>FINANCIAL (\$000, except per share amounts)</b>					
Petroleum and natural gas sales	<b>4,892</b>	4,143	4,106	<b>18,001</b>	8,390
Adjusted funds flow <sup>(1)</sup>	<b>2,526</b>	2,119	2,197	<b>9,478</b>	3,656
Per share – basic and diluted <sup>(1)</sup>	<b>0.02</b>	0.02	0.02	<b>0.09</b>	0.03
Cash flow from operating activities	<b>1,940</b>	2,545	1,683	<b>9,548</b>	2,337
Per share – basic and diluted	<b>0.02</b>	0.02	0.02	<b>0.09</b>	0.02
Income (loss)	<b>(1,032)</b>	322	264	<b>(103)</b>	(1,249)
Per share – basic and diluted	<b>(0.01)</b>	-	-	-	(0.01)
Capital expenditures, acquisitions and dispositions	<b>2,728</b>	6,439	6,945	<b>21,197</b>	17,492
Net debt (working capital surplus) <sup>(1)</sup>	<b>3,729</b>	2,881	(8,455)	<b>3,729</b>	(8,455)
<b>Common shares outstanding (000)</b>					
End of period – basic	<b>108,921</b>	108,921	108,921	<b>108,921</b>	108,921
Weighted average for the period – basic	<b>108,921</b>	108,921	108,921	<b>108,921</b>	108,921
Weighted average for the period – diluted	<b>108,921</b>	108,922	108,921	<b>108,921</b>	108,921

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

# PRESIDENT'S MESSAGE

## 2017 HIGHLIGHTS

- Production volumes averaged 1,128 boe per day (84% oil and NGLs), a per share increase of 96% from 2016.
- Adjusted funds flow was \$9.5 million, up 159% from 2016 due to increased production volumes and higher crude oil prices.
- Operating netback averaged \$27.49 per boe, up 9% from 2016.
- Total cash costs (royalties, operating, transportation, G&A, exploration, and interest and financing expenses) were \$20.70 per boe, 8% lower than 2016, driving a corporate netback of \$23.02 per boe for the year.
- Capital expenditures totaled \$21.2 million, including \$14.7 million on drilling, completions and equipping, plus \$3.8 million on facilities and pipelines.
- Proved developed producing ("PDP") reserves increased by 45% from 1,099 mboe to 1,595 mboe. Total proved ("1P") reserves increased by 71% from 1,821 mboe to 3,107 mboe. Total proved plus probable ("2P") reserves increased by 68% from 3,195 mboe to 5,370 mboe.
- All-in finding, development and acquisition ("FD&A") costs<sup>1</sup> were \$23.36 per boe for PDP, \$21.97 per boe for 1P and \$17.21 per boe for 2P reserves, including the changes in future development costs ("FDC"). This includes \$5.6 million of non-reserve adding capital (27% of capital expenditures) to acquire undeveloped land and construct pipelines and facilities.
- Recycle ratio<sup>1</sup> of 1.2 times for PDP, 1.3 times for 1P, and 1.6 times for 2P reserves based on the all-in 2017 FD&A costs and Altura's 2017 operating netback of \$27.49 per boe.
- The credit facility was increased to \$10.0 million in October 2017 from \$4.0 million in 2016 as a result of growth in Altura's producing reserves and value. Net debt at December 31, 2017 was \$3.7 million or 0.4 times annualized fourth quarter adjusted funds flow.

## FOURTH QUARTER 2017 HIGHLIGHTS

- Production volumes averaged 1,202 boe per day, a per share increase of 10% from the third quarter of 2017 and 22% from the fourth quarter of 2016.
- Adjusted funds flow was \$2.5 million, up 19% from the third quarter of 2017 and up 15% from the fourth quarter of 2016 due primarily to increased production volumes and higher crude oil prices.
- At Leduc-Woodbend, two 1.5-mile extended reach horizontal ("ERH") wells (102/13-14-049-26W4 or "13-14") and 100/03-02-049-26W4 "03-02") were brought on production on October 27<sup>th</sup>. The two wells together produced 559 boe per day (95% oil & NGLs) from October 27<sup>th</sup> to December 31<sup>st</sup> or 401 boe per day in the fourth quarter.
- Operating netback averaged \$29.40 per boe, up 18% from the third quarter of 2017 and consistent with the fourth quarter of 2016.
- Total cash costs (royalties, operating, transportation, G&A, exploration, and interest and financing expenses) were \$21.40 per boe, driving a corporate netback of \$22.82 per boe for the quarter.
- Leduc-Woodbend operating and transportation costs averaged \$9.51 per boe, down from \$18.10 per boe in the third quarter of 2017 and \$14.70 per boe in the fourth quarter of 2016.

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<sup>1</sup> "Finding, development & acquisition costs" or "FD&A costs", and "Recycle ratio" do not have standardized meanings. See "*Oil and Gas Metrics*" contained in the advisories section of the MD&A.

- Net capital expenditures totaled \$2.7 million. The main projects included \$1.7 million for completion and equipping activities related to the two new ERH wells and \$0.7 million for the emulsion gathering pipeline at Leduc-Woodbend.

## OPERATIONAL UPDATE

### Leduc-Woodbend

Since acquiring its initial land position in 2015 and drilling its first horizontal well in August 2016, Altura has accumulated 66 sections of 100% working interest land in this Upper Mannville Rex oil pool. Altura believes this pool to be one of the largest conventional oil pools discovered in the Western Canada Sedimentary Basin within the last 20 years. The Corporation is in the very early stages of drilling its large oil-weighted well inventory, with only five horizontal wells drilled to date.

Leduc-Woodbend 2P reserves increased 900% to 2,140 mboe in 2017 from 235 mboe in 2016 and now represent 40% of Altura's total 2P reserves. Production volumes for the area increased to 516 boe per day in the fourth quarter of 2017 compared to 167 boe per day in the third quarter of 2017 and 81 boe per day in the fourth quarter of 2016.

Operating and transportation costs for this core area decreased to \$9.51 per boe in the fourth quarter of 2017 compared to \$18.10 per boe in the third quarter of 2017 and \$14.70 per boe in the fourth quarter of 2016. The decreased operating and transportation costs are attributed to increased production volumes coupled with decreased well servicing costs and markedly reduced water handling and water disposal costs due to the 2017 infrastructure expenditures in the area.

Altura drilled and completed a 1.5-mile ERH well (100/02-02-049-26W4 or "02-02") in the first quarter of 2018, its third ERH well in the area. The well was drilled to a vertical depth of 1,300 meters with a horizontal length of approximately 2,000 meters with 46 frac stages. Drilling and completion costs for 02-02 including access roads and pad construction are estimated at \$2.5 million.

The 02-02 well was placed on production on February 24<sup>th</sup> and produced a total of 6,925 bbls of 17° API oil over the first 26 calendar days ending March 21<sup>st</sup>. The well initially produced at restricted rates due to solution gas processing constraints and the recovery of completion load fluid. The well has now fully recovered the completion load fluid and the average production rates over the last seven days ended March 21<sup>st</sup> is shown below:

Well	OIL bbls/d	NGLs bbls/d	GAS mcf/d	TOTAL boe/d	WATER bbls/d
100/02-02-049-26W4	293	9	192	334	294

Current production rates from all three ERH wells (13-14, 03-02, and 02-02) are exceeding management's expectations. With limited production history to date, Altura is modeling each well to average approximately 160 boe per day over the first 12 months of production and exit the 12-month period at 105 boe per day. For more detailed information, please refer to Altura's corporate presentation on the Corporation's website at [www.alturaenergy.ca](http://www.alturaenergy.ca).

The Corporation continues to invest in critical infrastructure in the area. In March, Altura constructed a key natural gas gathering pipeline that connects Altura's northern area production to a second third party gas plant in the southern half of the field. This pipeline connection is expected to come on stream at the beginning of April and will increase Altura's natural gas gathering and processing capacity, reduce processing fees, and enable Altura to avoid periodic production curtailments related to third party gas gathering systems.

Altura remains committed to expanding the multi-well battery at 12-14-049-26W4 ("12-14") to a processing capacity of 3,000 to 3,500 barrels of oil per day. To date, Altura has invested approximately \$0.9 million on the initial phase of the battery which includes procurement of major equipment, full scale engineering, and the installation of water disposal equipment. Water disposal commenced mid-March from the 12-14 battery into Altura's northern area disposal well which will result in further operating cost reductions by eliminating water hauling to Altura's water disposal well in the southern area of the field. The final construction and commission phases of the multi-well battery to meet designed oil processing rates are planned for 2019.

## Macklin

Altura drilled and completed a 1.0-mile horizontal well at Macklin (09-33-039-28W3 or "09-33") in the first quarter of 2018 following up on the success of its initial horizontal well drilled in this Sparky oil pool in March 2017 (13-32-039-28W3). The 09-33 well was drilled to a vertical depth of 725 meters with a horizontal length of 1,485 meters with 36 frac stages and was placed on production on February 1, 2018. Drilling and completion costs including access roads and pad construction are estimated at \$1.3 million.

The 09-33 well produced a total of 2,236 bbls of 19° API oil over the first 49 calendar days ending March 21<sup>st</sup> while recovering 7,724 bbls of completion load fluid. The well has fully recovered the completion load fluid and is continuing to improve with a decreasing water cut. A summary of the average well production rates over the last seven days ended March 21<sup>st</sup> is shown below:

Well	OIL bbls/d	NGLs bbls/d	GAS mcf/d	TOTAL boe/d	WATER bbls/d
101/09-33-039-28W3	62	0	42	69	185

Altura is modeling the 09-33 well to average approximately 64 boe per day over the first 12 months of production and exit the 12-month period at 44 boe per day.

In February, the Corporation commissioned a new produced water disposal pipeline at Macklin which is connected to third party water disposal facilities. This has eliminated water hauling and will reduce area operating costs.

## OUTLOOK

For the remainder of 2018, Altura plans to drill two additional ERH wells at Leduc-Woodbend. Guidance remains as previously announced with capital expenditures of approximately \$15 million for 2018. The capital development program is split approximately 60% to drilling, completion, equipping and tie-in ("DCET") capital and 40% to infrastructure and other capital. The significant weighting to infrastructure investment positions Altura to continue to reduce operating costs and grow production profitably as it develops its Leduc-Woodbend oil pool.

The capital program is forecasted to grow 2018 annual average production by 12% to 1,260 boe per day. Based on \$9.5 million of well-related capital, the current program is forecasted to deliver a capital efficiency on an annual basis of approximately \$17,000/boe per day.

## ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held at 9:30 a.m. on Thursday, May 17, 2018 in the Devonian Room at the Calgary Petroleum Club, 319 – 5<sup>th</sup> Avenue SW, Calgary, Alberta.

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

Respectfully,

/s/ David Burghardt  
President and Chief Executive Officer  
March 21, 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 March 21, 2018 and should be read in conjunction with the Corporation's audited consolidated financial statements (the "financial statements") and related notes for the years ended December 31, 2017 and 2016, as well as the Corporation's annual information form that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

### DESCRIPTION OF BUSINESS

Altura is a junior oil and gas exploration, development and production company with operations in central and east central Alberta. Altura predominantly produces from the Sparky and Rex members in the Upper Mannville group and is focused on delivering per share growth and attractive shareholder returns through a combination of organic growth and key 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".

### SELECTED ANNUAL INFORMATION

(\$000, except per share amounts)	2017	2016	2015
Petroleum and natural gas sales	<b>18,001</b>	8,390	5,583
Adjusted funds flow <sup>(1)</sup>	<b>9,478</b>	3,656	2,152
Per share – basic and diluted <sup>(1)</sup>	<b>0.09</b>	0.03	0.03
Cash flow from operating activities	<b>9,548</b>	2,337	1,207
Per share – basic and diluted	<b>0.09</b>	0.02	0.02
Loss	<b>(103)</b>	(1,249)	(3,809)
Per share – basic and diluted	-	(0.01)	(0.06)
Capital expenditures, net of divestitures	<b>21,197</b>	17,492	3,184
Total assets	<b>50,807</b>	45,915	40,948
Net debt (working capital surplus) <sup>(1)</sup>	<b>3,729</b>	(8,455)	(22,129)
Common shares outstanding (000)			
End of period – basic	<b>108,921</b>	108,921	108,921
Weighted average for the period – basic and diluted	<b>108,921</b>	108,921	65,619

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

## RESULTS OF OPERATIONS

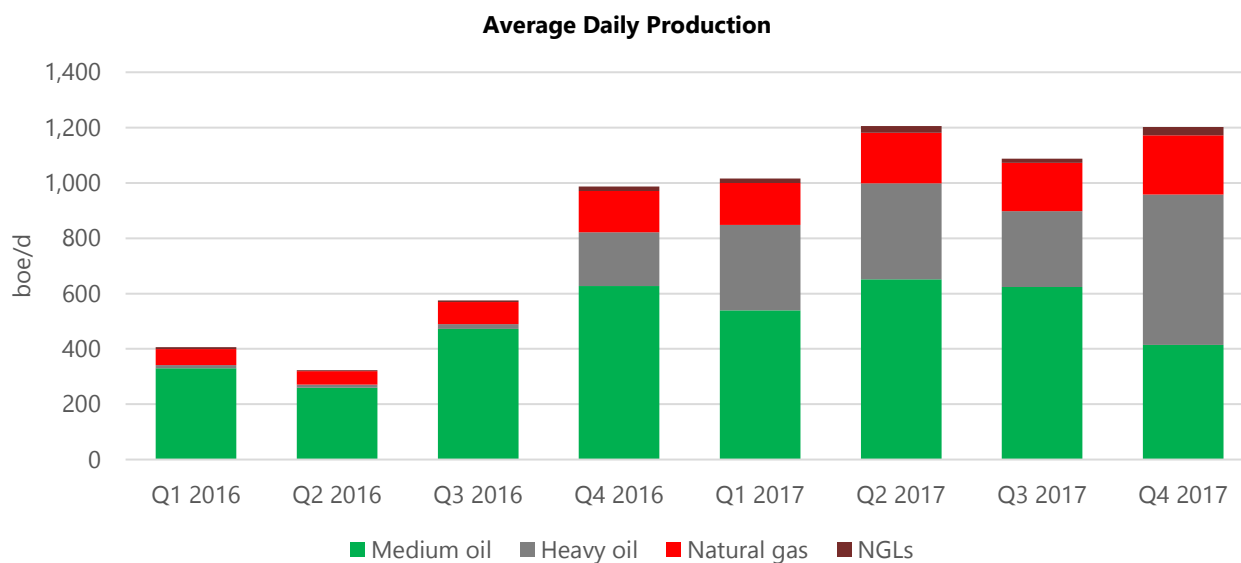
### Production

	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Medium oil (bbls/d)	414	627	(34)	557	423	32
Heavy oil (bbls/d)	544	195	179	369	59	525
Natural gas (mcf/d)	1,286	890	44	1,085	501	117
Natural gas liquids ("NGLs") (bbls/d)	30	17	76	22	8	175
Total (boe/d)	1,202	988	22	1,128	574	97
Oil and natural gas liquids % of production	82%	85%	(4)	84%	85%	(1)

Crude oil production volumes in the fourth quarter of 2017 increased to 958 barrels per day from 822 barrels per day in the fourth quarter of 2016 as the decrease in medium oil was more than offset by the increase in heavy oil. The increase in heavy oil, natural gas and NGLs production is mainly due to two new extended reach horizontal wells at Leduc-Woodbend that were brought on production at the end of October. The decrease in medium oil reflects natural production declines at Eyehill and Killam.

For the year, production volumes increased 97 percent to 1,128 boe per day compared to 574 boe per day in 2016. The increase is due to the Corporation's successful drilling program in the second half of 2016 and 2017.

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



## Revenue

(\$000)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Medium oil	<b>2,123</b>	2,965	(28)	<b>10,449</b>	6,861	52
Heavy oil	<b>2,431</b>	800	204	<b>6,290</b>	922	582
Natural gas	<b>214</b>	273	(22)	<b>923</b>	486	90
Natural gas liquids	<b>125</b>	68	84	<b>339</b>	121	180
Petroleum and natural gas sales	<b>4,893</b>	4,106	19	<b>18,001</b>	8,390	115

Petroleum and natural gas sales for the fourth quarter of 2017 increased 19 percent to \$4.9 million compared to \$4.1 million in the fourth quarter of 2016. The quarter-over-quarter increase of \$0.8 million consists of \$0.6 million attributed to increased production volumes and \$0.2 million attributed to higher realized crude oil prices. For the year, petroleum and natural gas sales increased 115 percent to \$18.0 million compared to \$8.4 million in 2016. The increase of \$9.6 million consists of \$7.7 million attributed to increased production volumes and \$1.9 million attributed to higher realized prices.

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 West Texas Intermediate ("WTI") oil price and the Western Canadian Select ("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 connecting key consuming oil markets.

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

	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
<b>Average Benchmark Prices</b>						
WTI crude oil (US\$/bbl) <sup>(1)</sup>	<b>55.40</b>	49.29	12	<b>50.91</b>	43.32	18
US\$/Cdn\$ exchange rate	<b>0.787</b>	0.752	5	<b>0.770</b>	0.755	2
WCS (Cdn\$/bbl)	<b>54.87</b>	46.63	18	<b>50.53</b>	38.88	30
AECO daily spot (\$/GJ)	<b>1.60</b>	2.93	(45)	<b>2.04</b>	2.05	-
<b>Average Realized Prices</b>						
Medium oil (\$/bbl)	<b>55.73</b>	51.37	8	<b>51.41</b>	44.37	16
Heavy oil (\$/bbl)	<b>48.54</b>	44.54	9	<b>46.75</b>	42.42	10
Natural gas (\$/mcf)	<b>1.81</b>	3.34	(46)	<b>2.33</b>	2.65	(12)
Natural gas liquids (\$/bbl)	<b>45.46</b>	44.75	2	<b>42.79</b>	39.60	8
Average realized price (\$/boe)	<b>44.22</b>	45.20	(2)	<b>43.72</b>	39.95	9

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

(2) WCS represents the benchmark Western Canadian Select heavy crude oil price.

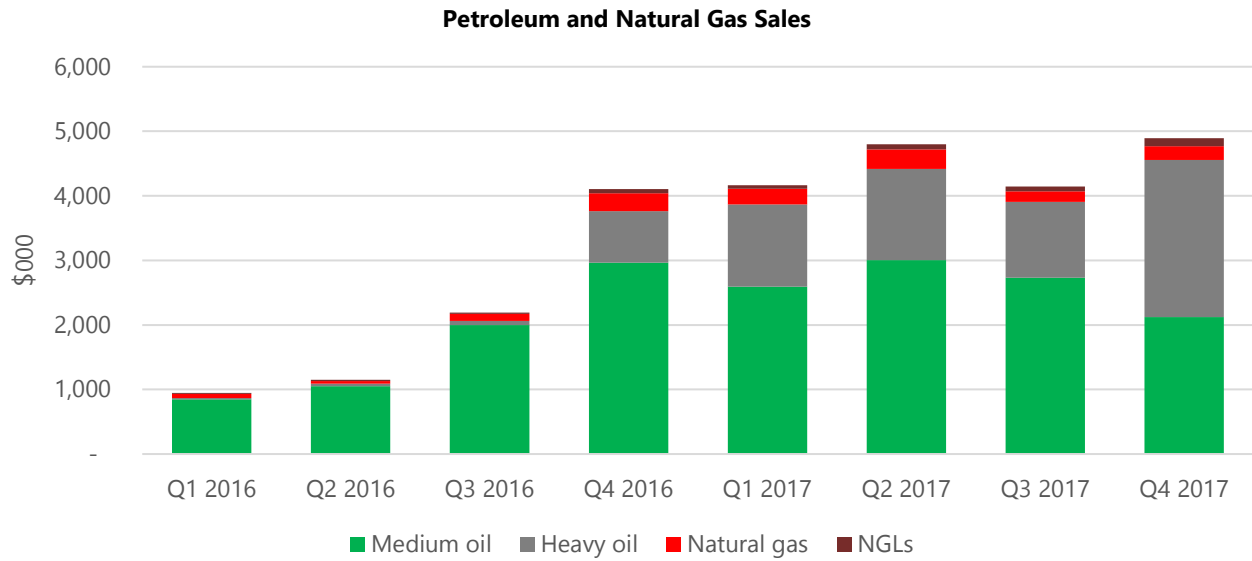
For the fourth quarter of 2017 and year ended December 31, 2017 Altura's realized medium oil price increased by eight percent to \$55.73 per barrel and 16 percent to \$51.41 per barrel, respectively, as compared to the comparable prior periods. Realized heavy oil prices increased by nine percent to \$48.54 per barrel and 10 percent to \$46.75 per barrel in the fourth quarter of 2017 and year ended December 31, 2017, respectively, as compared to the comparable prior periods.

The price increases in medium and heavy oil are primarily attributed to the increase in WTI, partially offset by the increase in the US\$/Cdn\$ exchange rate and deteriorating realized price differentials compared to WCS. Altura's realized medium oil price premium to WCS declined to \$0.86 per barrel in the fourth quarter of 2017 compared to \$4.74 per barrel in the fourth quarter of 2016. Altura's realized heavy oil discount to WCS increased to \$6.33 per barrel in the fourth quarter of 2017 compared to \$2.09 per barrel in the fourth quarter of 2016. The deteriorating realized differentials in medium and heavy oil in the fourth quarter of 2017 were related to pricing dislocations primarily resulting from crude oil export pipeline capacity

constraints that emerged during the quarter. For 2018, Altura is forecasting its medium oil price to average 110 percent of WCS and its heavy oil price to average 90 percent of WCS.

For the fourth quarter and year ended December 31, 2017 Altura's realized natural gas price decreased by 46 percent and 12 percent, respectively, compared to the same periods in 2016 due to the decline in the AECO daily spot price.

The following exhibit shows Altura's petroleum and natural gas sales over the past eight quarters.





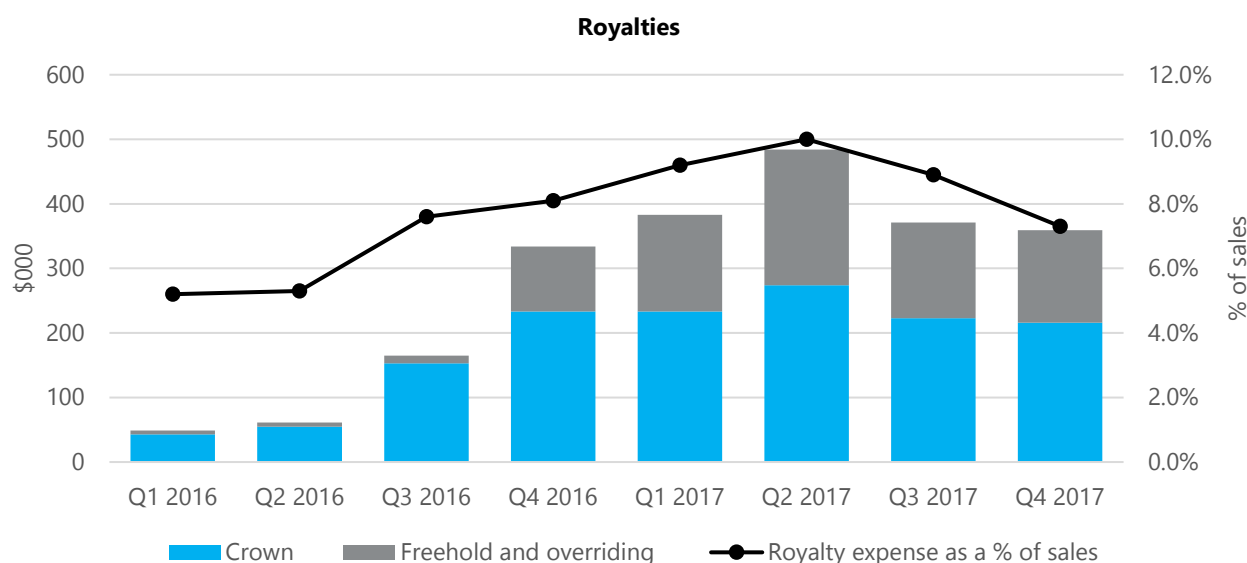
## Royalties

(\$000, except % and per boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Crown royalties	216	233	(7)	946	484	95
Freehold and overriding royalties	143	101	42	651	125	421
Royalty expense	359	334	7	1,597	609	162
Royalty expense as a % of sales	7.3%	8.1%	(10)	8.9%	7.3%	22
Royalty expense per boe	3.24	3.67	(12)	3.88	2.90	34

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

In the fourth quarter royalties as a percentage of sales decreased 10 percent from the fourth quarter of 2016 from lower Crown royalties, mainly due to two new wells brought on production in the quarter with Crown royalty incentives. In 2017 royalties as a percentage of sales increased 22 percent from 2016 mainly due to increased freehold and overriding royalties on wells drilled on freehold mineral lands that have higher royalty rates than Crown lands in a low commodity price environment.

The following exhibit shows Altura's royalty expenses over the past eight quarters.



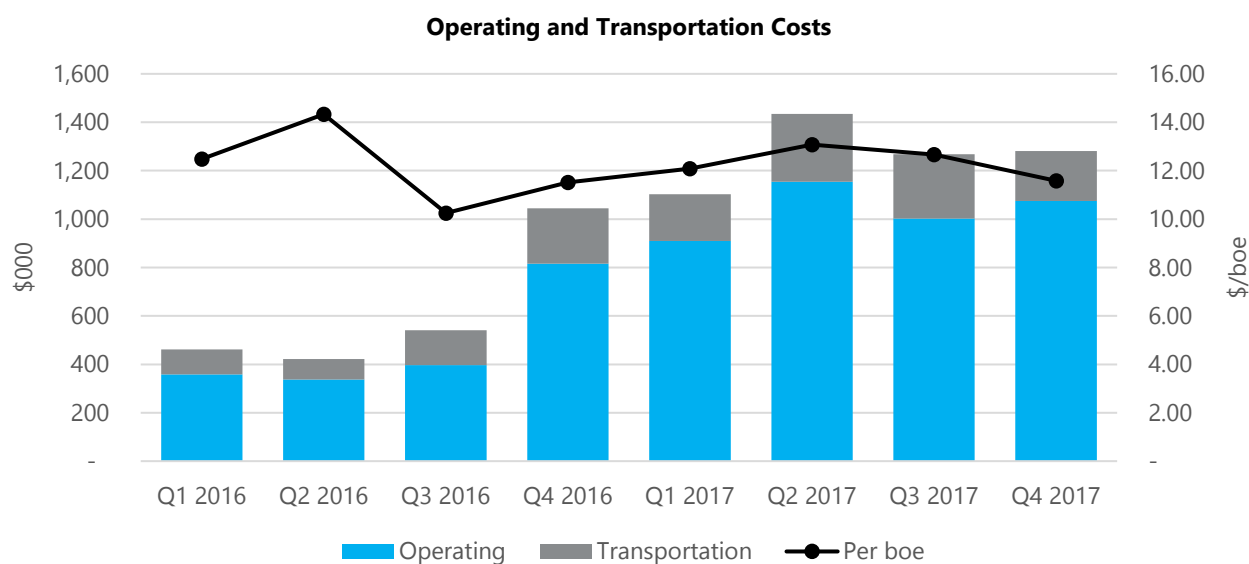
## Operating and Transportation Costs

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Operating	1,075	816	32	4,141	1,908	117
Transportation	206	228	(10)	945	561	68
Operating and transportation	1,281	1,044	23	5,086	2,469	106
Operating per boe	9.72	8.99	8	10.06	9.09	11
Transportation per boe	1.86	2.52	(26)	2.29	2.67	(14)
Operating and transportation per boe	11.58	11.51	1	12.35	11.76	5

Operating and transportation costs increased to \$1.3 million and \$5.1 million for the fourth quarter and year ended December 31, 2017, compared to \$1.0 million and \$2.5 million for the same periods in 2016, respectively. This increase is due to Altura's increase in overall production volumes.

On a per boe basis, operating and transportation costs were \$11.58 and \$12.35, for the fourth quarter and year ended December 31, 2017. The increase of five percent in 2017 compared to 2016 was primarily a result of increased oil and water production from the Leduc-Woodbend, Macklin, and Killam areas which had higher operating costs than Altura's corporate average in 2016.

The following exhibit shows Altura's operating and transportation costs over the past eight quarters.



Operating and transportation costs decreased by \$1.08 per boe to \$11.58 per boe in the fourth quarter from \$12.66 per boe in the third quarter of 2017. Transportation costs decreased by \$0.80 per boe in the fourth quarter from the third quarter of 2017 due to a decreased percentage of clean oil hauling as crude oil associated with the new wells brought on production in October was hauled to the sales terminal as emulsion, which is recorded to operating costs. Operating costs decreased by \$0.28 per boe to \$9.72 per boe in the fourth quarter from the third quarter of 2017 due mainly to decreased water hauling and disposal costs due to implementing the Eyehill waterflood injection scheme and the Leduc-Woodbend water disposal well, which was partially offset by increased emulsion hauling.

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

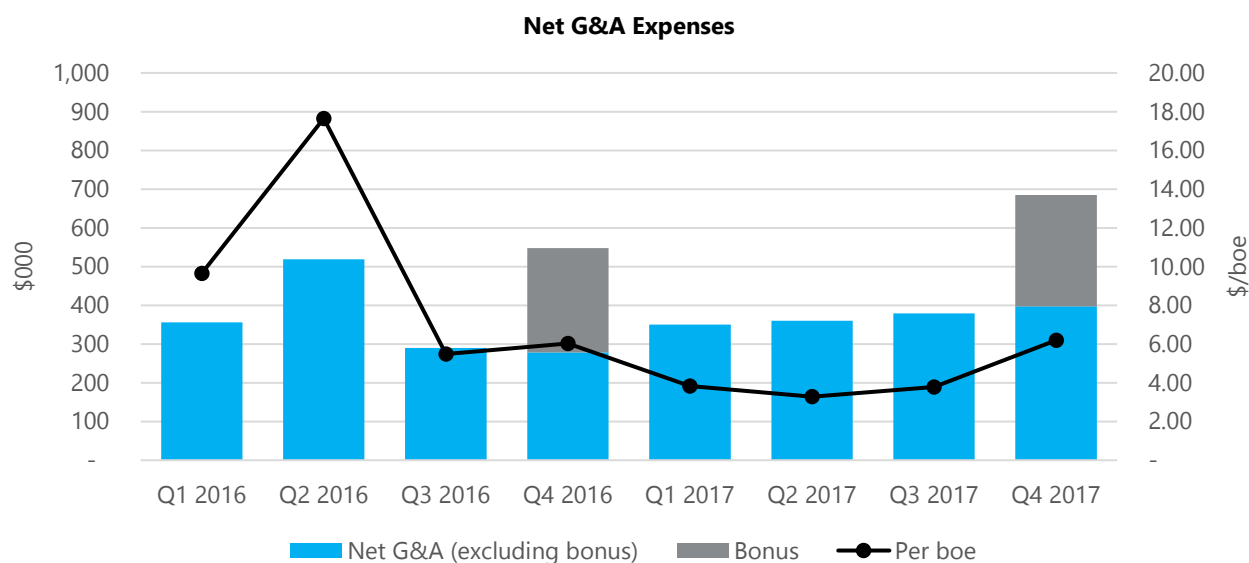
(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Gross G&A	803	661	21	2,263	2,030	1
Capitalized G&A and overhead recoveries	(118)	(113)	4	(489)	(317)	54
Net G&A expenses	685	548	25	1,774	1,713	4
Net G&A per boe	6.20	6.03	3	4.31	8.16	(47)

Net G&A expenses totaled \$685,000 and \$1,774,000 for the fourth quarter and year ended December 31, 2017, respectively, compared to \$548,000 and \$1,713,000 for the same periods in 2016. The increase is primarily related to increased salaries and benefits, professional services, and director fees associated with the Corporation's growth, partially offset by increased capitalized G&A.

Net G&A expenses decreased 47 percent to \$4.31 per boe for the year ended December 31, 2017, due to higher production volumes.

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 G&A and overhead recoveries in the fourth quarter and year ended December 31, 2017 is a result of increased capital spending compared to the same periods in 2016.

The following exhibit shows Altura's net G&A expenses over the past eight quarters.



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 December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Exploration expense	-	-	-	-	67	(100)
Exploration expense per boe	-	-	-	-	0.32	(100)

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

## Interest and Financing Expenses

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Interest and financing expenses	<b>42</b>	5	>500	<b>84</b>	36	133
Interest and financing expenses per boe	<b>0.38</b>	0.05	>500	<b>0.20</b>	0.17	18

Interest and financing expenses totaled \$42,000 and \$84,000 in the fourth quarter and year ended December 31, 2017, respectively, compared to \$5,000 and \$36,000 in the same periods of 2016. The increases are due to higher average bank debt in 2017 as the 2016 expenses related to only standby fees and credit facility renewal fees.

## Interest Income

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Interest income	-	22	(100)	<b>18</b>	160	(89)
Interest income per boe	-	0.25	(100)	<b>0.04</b>	0.76	(95)

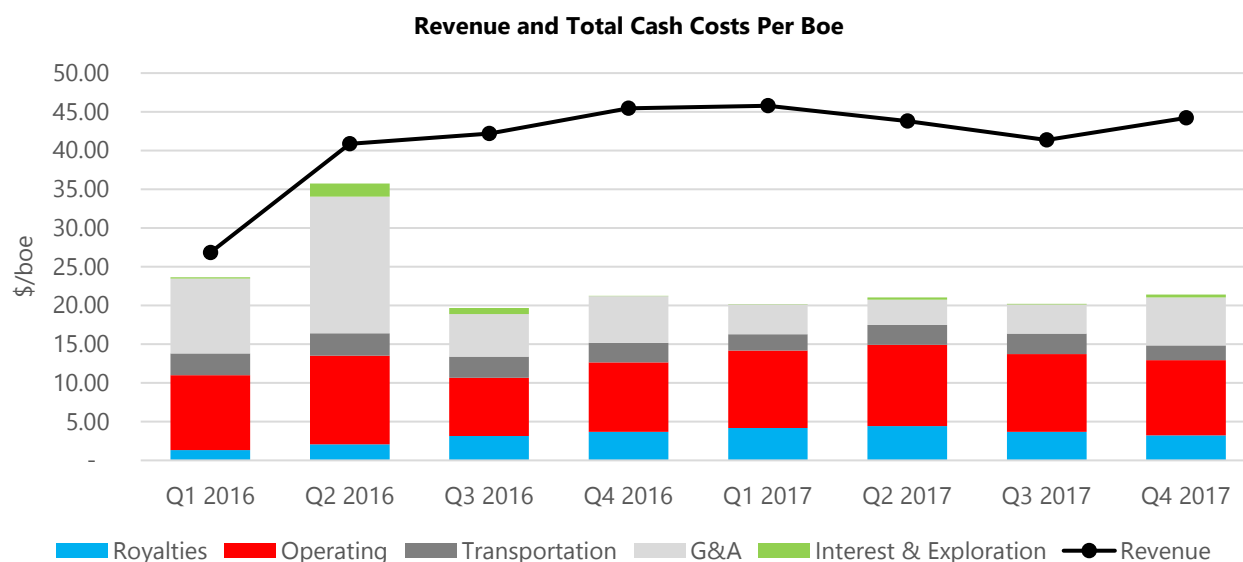
Interest income was nil and \$18,000 in the fourth quarter and year ended December 31, 2017, respectively, compared to \$22,000 and \$160,000 in the same periods of 2016. The decreases are due to a lower average cash balance invested in 2017.

## Netbacks

(\$/boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Average realized sales price	<b>44.22</b>	45.20	(2)	<b>43.72</b>	39.95	9
Royalties	<b>(3.24)</b>	(3.67)	(12)	<b>(3.88)</b>	(2.90)	34
Operating	<b>(9.72)</b>	(8.99)	8	<b>(10.06)</b>	(9.09)	11
Transportation	<b>(1.86)</b>	(2.52)	(26)	<b>(2.29)</b>	(2.67)	(14)
Operating netback	<b>29.40</b>	30.02	(2)	<b>27.49</b>	25.29	9
General and administrative	<b>(6.20)</b>	(6.03)	3	<b>(4.31)</b>	(8.16)	(47)
Exploration expense	-	-	-	-	(0.32)	(100)
Interest and financing expenses	<b>(0.38)</b>	(0.05)	>500	<b>(0.20)</b>	(0.17)	18
Interest income	-	0.25	(100)	<b>0.04</b>	0.76	(95)
Corporate netback	<b>22.82</b>	24.19	(6)	<b>23.02</b>	17.40	32

Altura's corporate netback was \$22.82 per boe in the fourth quarter of 2017 compared to \$24.19 per boe in the same period of 2016. The decrease is mainly a result of a lower average realized sales price and increased per unit operating and interest expenses and no interest income, partially offset by decreased per unit royalties and transportation costs. For 2017 Altura's corporate netback was \$23.02 per boe compared to \$17.40 per boe in 2016. The increase is mainly a result of increased realized prices and increased production volumes resulting in decreased per unit G&A and transportation costs and no exploration expense, partially offset by increased royalties and operating expenses and decreased interest income.

The following exhibit shows Altura's revenue (average realized sales price plus interest income) per boe, and total cash costs per boe over the past eight quarters.



### Share-Based Compensation

(\$000)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Share-based compensation	264	286	(8)	1,086	1,110	(2)
Capitalized share-based compensation	(53)	(68)	(22)	(228)	(170)	34
Share-based compensation expense	211	218	(3)	858	940	(9)

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation uses the fair-value method for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. Share-based compensation, before capitalized amounts, totaled \$264,000 and \$1,086,000 in the fourth quarter and year ended December 31, 2017, respectively, compared to \$286,000 and \$1,110,000 in the same periods of 2016.

The increase in capitalized share-based compensation in 2017 is a result of increased capital spending compared to 2016. Altura's policy is to capitalize costs that are directly attributable to the construction of property and equipment or exploration and evaluation assets.

### Transaction Costs

(\$000)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Transaction costs	-	-	-	-	12	(100)

No transaction costs were incurred in 2017. Transaction costs incurred in 2016 relate to legal fees and environmental consulting associated with a property acquisition.

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

(\$000, except per boe)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
DD&A	1,796	1,695	6	7,206	4,098	76
DD&A per boe	16.23	18.65	(13)	17.50	19.51	(10)

Altura uses proved and probable reserves to calculate DD&A expense. For the fourth quarter and year ended December 31, 2017, DD&A increased 6 percent and 76 percent to \$1.8 million and \$7.2 million, respectively, over the same periods in 2016 due to increased production volumes.

DD&A decreased to \$16.23 per boe and \$17.50 per boe in the fourth quarter and year ended December 31, 2017, respectively, from \$18.65 per boe and \$19.51 per boe in the same periods of 2016 reflecting an increase in the Corporation's proved and probable reserves at a lower finding and development cost than the aggregate amount in the comparable prior periods.

## Impairment

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

At December 31, 2017, Altura evaluated its developed and producing ("D&P") assets on a cash generating unit ("CGU") basis for indicators of any potential impairment or related recovery. Altura determined there to be indicators of impairment for the Killam CGU due to drilling results and associated reserve additions not being as strong as anticipated compared to capital invested.

The impairment test determined that the net book value exceeded the recoverable amount of \$3.4 million on the Killam CGU and Altura recognized a \$1.5 million impairment charge in the year ended December 31, 2017 (2016 - \$nil).

## Gain on Sale of Assets

In 2017, the Corporation divested of undeveloped land for cash of \$750,000. Altura recorded a gain of \$143,000 on the disposition in the year ended December 31, 2017. In 2016 the Corporation divested of minor non-producing properties for aggregate proceeds of \$125,000. Altura recorded a gain of \$70,000 on the dispositions for the year ended December 31, 2016.

## Deferred Taxes

The Corporation had no deferred income tax expense or recovery in the three months and years ended December 31, 2017 and 2016. As at December 31, 2017 and 2016, the Corporation had an unrecognized deferred tax asset.

Estimated tax pools at December 31, 2017 are as follows:

	(\$000)
Canadian development expenses	13,675
Canadian exploration expenses	2,921
Canadian oil and gas property expenses	6,976
Non-capital losses	8,527
Capital losses	173
Undepreciated capital cost	10,302
Share issue costs	116
	<b>42,690</b>

Non-capital losses expire between 2025 and 2037.

### Cash Flow from Operating Activities and Adjusted Funds flow

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

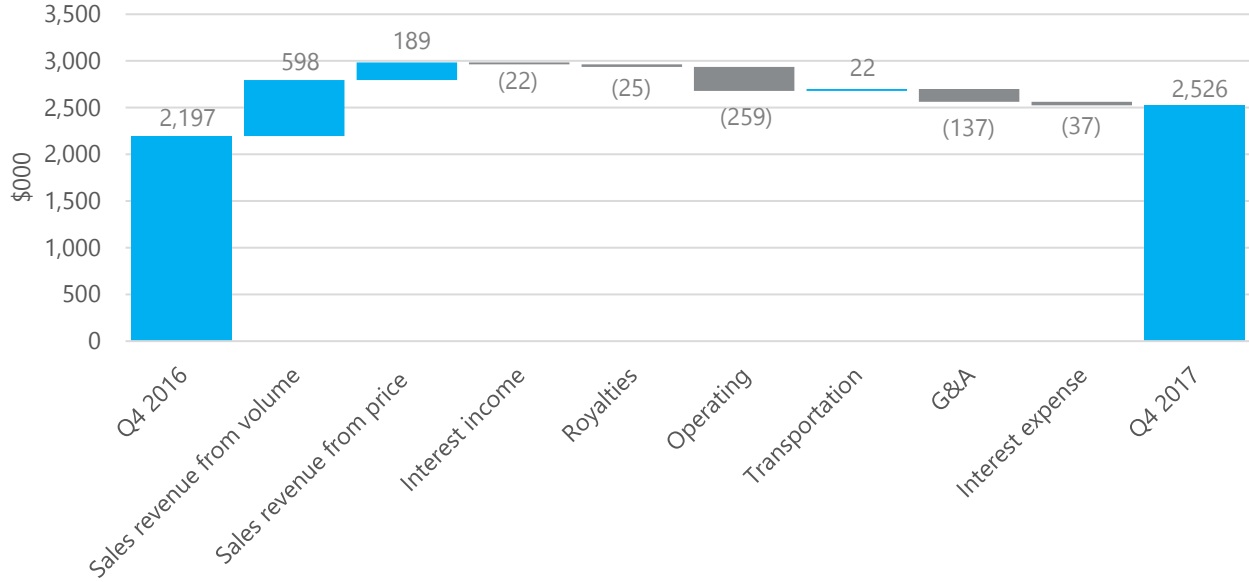
(\$000, except per share amounts)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Cash flow from operating activities	1,940	1,683	15	9,548	2,337	309
Transaction costs	-	-	-	-	12	(100)
Decommissioning liabilities settled	16	6	167	54	9	500
Changes in non-cash operating working capital	570	508	12	(124)	1,298	(110)
Adjusted funds flow	2,526	2,197	15	9,478	3,656	159
Per share – basic	0.02	0.02	-	0.09	0.03	200
Per share – diluted	0.02	0.02	-	0.09	0.03	200

Cash flow from operating activities increased to \$1.9 million and \$9.5 million for the fourth quarter and year ended December 31, 2017, compared to \$1.7 million and \$2.3 million in the same periods of 2016. For the fourth quarter, the increase is due mainly to increased revenue from incremental production volumes and higher commodity prices, partially offset by higher royalties, operating costs, G&A and interest expense. For 2017, the increase is due mainly to increased revenue from incremental production volumes and higher commodity prices, coupled with a decrease in non-cash operating working capital, partially offset by higher royalties, operating, transportation costs, G&A, interest expense, and lower interest income. The change in non-cash operating working capital for the year ended December 31, 2017 was a decrease of \$124,000, compared to an increase of \$1,298,000 for the year ended December 31, 2016. This increase in 2016 related to a significant increase in revenue in December 2016 compared to December 2015.

Details of the change in adjusted funds flow and corporate netback per boe from the fourth quarter and year ended December 31, 2016, to the fourth quarter and year ended December 31, 2017, are as follows:

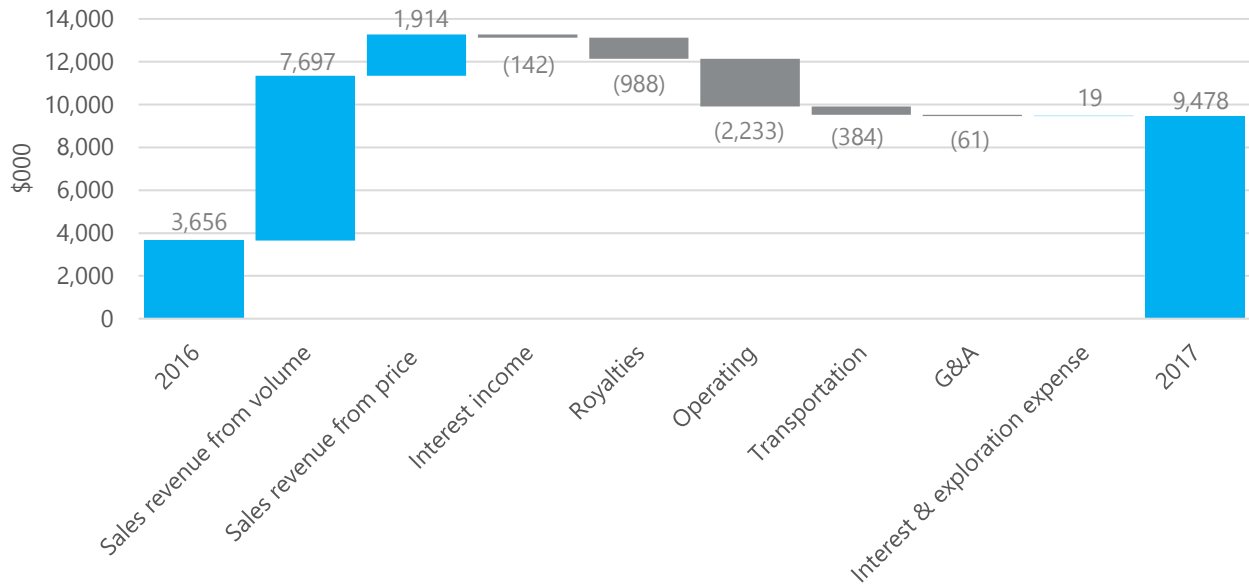
	Three months ended December 31		Year ended December 31	
	\$000	\$/boe	\$000	\$/boe
<b>Adjusted funds flow / Corporate netback – 2016</b>	<b>2,197</b>	<b>24.19</b>	<b>3,656</b>	<b>17.40</b>
Volume variance	598	-	7,697	-
Price variance	189	(0.98)	1,914	3.77
Interest and other income	(22)	(0.25)	(142)	(0.72)
Royalties	(25)	0.43	(988)	(0.98)
Expenses:				
Operating	(259)	(0.73)	(2,233)	(0.97)
Transportation	22	0.66	(384)	0.38
General and administrative	(137)	(0.17)	(61)	3.85
Exploration expense	-	-	67	0.32
Interest and financing	(37)	(0.33)	(48)	(0.03)
<b>Adjusted funds flow / Corporate netback – 2017</b>	<b>2,526</b>	<b>22.82</b>	<b>9,478</b>	<b>23.02</b>

### Fourth Quarter 2016 to Fourth Quarter 2017 Changes in Adjusted Funds flow



Adjusted funds flow increased \$0.3 million in the fourth quarter of 2017 to \$2.5 million from \$2.2 million generated in the fourth quarter of 2016. The increase is mainly due to higher revenue attributed to increased production volumes and higher realized prices, partially offset by operating costs associated with increased production volumes, and higher G&A.

### 2016 to 2017 Changes in Adjusted Funds flow



In 2017, adjusted funds flow increased \$5.8 million to \$9.5 million from \$3.7 million generated in 2016. The increase mainly reflects higher revenue due to increased production volumes, and higher realized prices, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and decreased interest income.



## Income (loss)

(\$000, except per share amounts)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Income (loss)	<b>(1,032)</b>	264	(491)	<b>(103)</b>	(1,249)	(92)
Per share – basic	<b>(0.01)</b>	-	-	-	(0.01)	(100)
Per share – diluted	<b>(0.01)</b>	-	-	-	(0.01)	(100)

For the fourth quarter and year ended December 31, 2017, Altura generated a loss of \$1.0 million and \$0.1 million, respectively, compared to income of \$0.3 million and a loss of \$1.2 million in the same periods of 2016. The increased loss in the quarter is primarily attributed to impairment of \$1.5 million and increased DD&A, partially offset by increased adjusted funds flow associated with the Corporation's production growth. In 2017, the decreased loss is primarily attributed to increased adjusted funds flow associated with Altura's production growth, partially offset by increased DD&A and impairment.

## Capital Expenditures

(\$000)	Three months ended December 31			Year ended December 31		
	2017	2016	% Change	2017	2016	% Change
Geological and geophysical	<b>6</b>	46	(87)	<b>138</b>	265	(48)
Land	<b>119</b>	2,907	(96)	<b>1,844</b>	4,297	(57)
Drilling and completions	<b>1,685</b>	2,234	(25)	<b>12,751</b>	5,977	113
Workovers	<b>281</b>	381	(26)	<b>1,343</b>	565	138
Equipping and facilities	<b>880</b>	1,327	(34)	<b>5,756</b>	2,172	165
Other	<b>112</b>	50	124	<b>470</b>	248	90
	<b>3,083</b>	6,945	(56)	<b>22,302</b>	13,524	65
Property acquisitions	-	-	-	-	4,093	(100)
Property dispositions	<b>(355)</b>	-	-	<b>(1,105)</b>	(125)	>500
Total capital expenditures	<b>2,728</b>	6,945	(61)	<b>21,197</b>	17,492	21

In the fourth quarter of 2017, Altura invested a total of \$2.7 million on total capital expenditures. Drilling and completion projects in the quarter included completion activities on the Leduc-Woodbend wells drilled in the third quarter of 2017 and lease construction work for two wells drilled in January 2018. Equipping and facilities capital related mainly to the construction of gas gathering, emulsion and produced water pipelines that were completed at the beginning of November, and equipping costs for the two new wells at Leduc-Woodbend.

In 2017 Altura invested a total of \$21.2 million on capital expenditures including: \$18.5 million on drilling, completing, and equipping and facilities; \$2.0 million on land, geological and geophysical costs; and \$1.8 million on workovers and other, partially offset by two property dispositions for cash proceeds of \$1.1 million. The Corporation drilled eight horizontal wells in 2017 including: three Rex oil wells at Leduc-Woodbend; three Sparky oil wells at Eyehill; one Rex oil well at Killam; and one Sparky oil well in the Macklin area on the Saskatchewan side of the border.

## Decommissioning Liability

At December 31, 2017, Altura recorded a decommissioning liability of \$6.6 million (December 31, 2016 - \$6.2 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 2.3 percent (December 31, 2016 - 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 increase in liability is mainly due to new wells drilled in 2017, partially offset by changes in estimates.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the year ended December 31, 2017, accretion expense totaled \$146,000 (December 31, 2016 - \$45,000).

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 7.8 at December 31, 2017. The LMR is the ratio of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Corporation to pay a deposit to the AER.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **Working Capital**

The Corporation had net debt of \$3.7 million at December 31, 2017, compared to a working capital surplus of \$8.5 million at December 31, 2016. At December 31, 2017, the major component of Altura's current assets was revenue (84 percent) to be received from its oil and gas marketers in respect to December 2017 production. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectable. Current liabilities largely consist of trade and joint interest payables (11 percent), accrued liabilities (19 percent) related to the Corporation's operations, and bank debt (69 percent). The Corporation manages its working capital using a combination of its adjusted funds flow 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**

At December 31, 2017, Altura had a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender") with a maximum borrowing limit of \$10.0 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Corporation is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility may be added to current assets. At December 31, 2017, the working capital ratio under the terms of the Credit Facility was calculated to be 4.2:1 (December 31, 2016 – 5.9:1). The next review date for the Credit Facility has been set for May 31, 2018 but may be set at an earlier or later date at the sole discretion of the Lender.

As at December 31, 2017, \$4.3 million (December 31, 2016 - \$nil) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for \$201,000 (December 31, 2016 - \$50,000).

### **Shareholders' Equity**

At December 31, 2017, 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 and performance warrants remain unchanged from December 31, 2016.

At March 21, 2018, the number of common shares, performance warrants and stock options outstanding remain unchanged from December 31, 2017.

### **Liquidity**

At December 31, 2017, Altura had net debt of \$3.7 million, and \$5.5 million available on its Credit Facility. Altura expects to have adequate liquidity to fund its 2018 capital expenditure budget through a combination of cash flow from operating activities and its Credit Facility. Altura's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserves evaluator.

## 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.

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>OPERATING</b>								
Average daily production								
Medium oil (bbls/d)	<b>414</b>	624	652	539	627	472	259	330
Heavy oil	<b>544</b>	274	346	309	195	18	12	11
Natural gas (mcf/d)	<b>1,286</b>	1,045	1,098	909	890	473	289	348
NGLs (bbls/d)	<b>30</b>	16	25	16	17	6	4	7
Total (boe/d)	<b>1,202</b>	1,088	1,205	1,015	988	574	323	405
Average realized sales price								
Medium oil (\$/bbl)	<b>55.73</b>	47.61	50.64	53.52	51.37	46.04	44.60	28.30
Heavy oil (\$/bbl)	<b>48.54</b>	46.50	44.90	45.86	44.54	37.68	35.43	20.57
Natural gas (\$/mcf)	<b>1.81</b>	1.71	3.03	2.96	3.34	2.53	1.53	1.96
NGLs (\$/bbl)	<b>45.46</b>	49.54	36.44	40.56	44.75	33.53	52.30	24.26
Total (\$/boe)	<b>44.22</b>	41.38	43.77	45.62	45.20	41.41	39.08	25.65
<b>NETBACK (\$/boe)<sup>(1)</sup></b>								
Petroleum and natural gas sales	<b>44.22</b>	41.38	43.77	45.62	45.20	41.41	39.08	25.65
Royalty expenses	<b>(3.24)</b>	(3.70)	(4.41)	(4.20)	(3.67)	(3.13)	(2.06)	(1.33)
Operating costs	<b>(9.72)</b>	(10.01)	(10.52)	(9.96)	(8.99)	(7.53)	(11.45)	(9.67)
Transportation costs	<b>(1.86)</b>	(2.65)	(2.55)	(2.12)	(2.52)	(2.73)	(2.88)	(2.81)
Operating netback <sup>(1)</sup>	<b>29.40</b>	25.02	26.29	29.34	30.02	28.02	22.69	11.84
General and administrative	<b>(6.20)</b>	(3.78)	(3.28)	(3.83)	(6.03)	(5.49)	(17.65)	(9.65)
Exploration expense	-	-	-	-	-	(0.70)	(1.01)	-
Interest and financing expense	<b>(0.38)</b>	(0.06)	(0.27)	(0.07)	(0.05)	(0.08)	(0.70)	(0.18)
Interest income	-	-	0.03	0.16	0.25	0.78	1.79	1.19
Corporate netback <sup>(1)</sup>	<b>22.82</b>	21.18	22.77	25.60	24.19	22.53	5.12	3.20
<b>FINANCIAL (\$000, except per share)</b>								
Petroleum and natural gas sales	<b>4,893</b>	4,143	4,800	4,165	4,106	2,189	1,149	946
Adjusted funds flow <sup>(1)</sup>	<b>2,526</b>	2,119	2,496	2,337	2,197	1,193	149	117
Per share – basic and diluted <sup>(1)</sup>	<b>0.02</b>	0.02	0.02	0.02	0.02	0.01	-	-
Cash flow from (used in) operating activities	<b>1,940</b>	2,545	2,269	2,794	1,683	763	28	(137)
Per share – basic and diluted	<b>0.02</b>	0.02	0.02	0.03	0.02	0.01	-	-
Income (loss)	<b>(1,032)</b>	322	594	13	264	(68)	(692)	(753)
Per share – basic and diluted	<b>(0.01)</b>	-	0.01	-	-	-	(0.01)	(0.01)
(\$000)								
Capital expenditures, net	<b>2,728</b>	6,439	3,078	8,952	6,945	8,049	2,294	204
Total assets	<b>50,807</b>	49,848	46,890	49,083	45,915	44,704	41,431	40,048
Net debt (working capital surplus) <sup>(1)</sup>	<b>3,729</b>	2,881	(1,156)	(2,436)	(8,455)	(13,209)	(20,011)	(22,199)
Shareholders' equity	<b>38,165</b>	38,933	38,336	37,468	37,182	36,632	36,410	36,870
Common shares outstanding (000)								
Weighted average for the period - basic	<b>108,921</b>	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted	<b>108,921</b>	108,922	109,082	109,289	108,921	108,921	108,921	108,921
Shares outstanding, end of period	<b>108,921</b>	108,921	108,921	108,921	108,921	108,921	108,921	108,921

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

Quarter over quarter changes in revenue from the first quarter of 2016 are the result of both an increase in oil and gas volumes sold as well as an increase in Altura's realized price for most quarters. 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.

Capital expenditures increased in 2016 from 2015 and included seven gross (6.5 net) wells and a property acquisition, which resulted in an increase in production volumes in the third and fourth quarters of 2016 and the first quarter of 2017. Capital expenditures in 2017 included drilling eight wells, land acquisitions and pipeline construction and facility upgrades.

Altura recorded 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 the loss in the quarter.

## **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**

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Altura has reviewed its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have an impact on the Corporation's net income and financial position. However, Altura will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing disaggregated revenue streams by product type.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. IFRS 9 also contains a new model to be applied for hedge accounting. The Corporation does not currently have any risk management contracts. Altura has determined that the adoption of IFRS 9 will not have a material impact on the measurement and carrying values of the Corporation's financial assets or liabilities. IFRS 9, as well as consequential amendments to IFRS 7, Financial Instruments: Disclosures, will be applied on a retrospective basis by Altura on January 1, 2018.

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 Corporation is currently in the contract identification stage of its IFRS 16 project and is evaluating the impact of the standard on Altura's financial statements.

## **ADVISORIES**

### **Non-GAAP Measures**

This MD&A and fourth quarter report contains references to measures used in the oil and natural gas industry such as "adjusted funds flow", "net debt", "corporate netback", "adjusted funds flow per share", and "operating netback". These measures do not have standardized meanings prescribed by generally accepted accounting principles and therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or

calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used, they should be given careful consideration by the reader. These measures have been described and presented in the MD&A and fourth quarter report in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations.

Adjusted funds flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or loss as determined in accordance with GAAP, as an indicator of Altura's performance or liquidity. Adjusted funds flow is used by Altura to evaluate operating results and the Corporation's ability to generate cash flow to fund capital expenditures and repay indebtedness. Adjusted funds flow denotes cash flow from operating activities as it appears on the Corporation's statement of cash flows before decommissioning expenditures, if any, transaction costs, if any, and changes in non-cash operating working capital. Adjusted funds flow per share is calculated as adjusted funds flow divided by the weighted average number of basic and diluted common shares outstanding. Operating netback denotes total sales less royalty expenses, operating costs and transportation costs calculated on a per boe basis. Corporate netback denotes operating netback less general and administrative, interest and financing expense and exploration expense, if any, plus interest income on a per boe basis. Altura uses net debt as a measure to assess its financial position. Net debt is equivalent to working capital deficit.

## **Oil and Gas Advisories**

### ***Reserves***

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

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

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

### ***Barrels of Oil Equivalent***

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

### ***Oil and Gas Metrics***

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

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

FD&A costs, including FDC, includes all capital expenditures in the year inclusive of the net acquisition costs and disposition proceeds as well as the change in FDC required to bring the reserves within the specified reserves category on production.

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

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

### ***Initial Production Rates***

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

### **Forward-looking Information**

This MD&A and fourth quarter report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and fourth quarter report contains forward-looking information and statements pertaining to plans concerning the construction of a future multi-well battery at Leduc-Woodbend, the ability to reduce operating costs and grow production profitably with planned Leduc-Woodbend infrastructure investments, on-stream date for the new gas gathering pipeline at Leduc-Woodbend, ability to reduce processing fees and reduce production curtailments with the new natural gas gathering pipeline, 2018 budget guidance, forecasted 2018 production growth, forecasted 2018 capital efficiency, and 2018 forecasted medium and heavy oil prices relative to WCS. Statements relating to "reserves" are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

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

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

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



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

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

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



## MANAGEMENT'S REPORT

To the Shareholders of Altura Energy Inc.

### *Management's Responsibility on Financial Statements*

The annual consolidated financial statements of Altura Energy Inc. as at and for the years ended December 31, 2017 and December 31, 2016 were prepared by management within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for the integrity of the consolidated financial statements.

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

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

/s/ David Burghardt  
President and Chief Executive Officer

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

March 21, 2018  
Calgary, Alberta

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altura Energy Inc.

We have audited the accompanying consolidated financial statements of Altura Energy Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Altura Energy Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ "KPMG LLP"

Chartered Professional Accountants

March 21, 2018  
Calgary, Canada

## CONSOLIDATED BALANCE SHEETS

As at

(\$000)	December 31, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	-	8,659
Accounts receivable (note 13)	2,297	2,276
Prepaid expenses and deposits	104	72
	<b>2,401</b>	11,007
Deposit	345	-
Exploration and evaluation (note 7)	4,517	7,865
Property and equipment (note 8)	43,544	27,043
<b>Total assets</b>	<b>50,807</b>	45,915
<b>LIABILITIES</b>		
Current liabilities		
Bank debt (note 9)	4,252	-
Accounts payable and accrued liabilities	1,812	2,552
Current portion of decommissioning liability (note 10)	66	-
	<b>6,130</b>	2,552
Decommissioning liability (note 10)	6,512	6,181
<b>Total liabilities</b>	<b>12,642</b>	8,733
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 11)	37,712	37,712
Performance warrants (note 11e)	1,605	938
Contributed surplus	3,506	3,087
Deficit	(4,658)	(4,555)
<b>Total shareholders' equity</b>	<b>38,165</b>	37,182
<b>Total liabilities and shareholders' equity</b>	<b>50,807</b>	45,915

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Robert Maitland  
Director

/s/ John McAleer  
Director

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(\$000, except per share amounts)	2017	2016
<b>REVENUE</b>		
Petroleum and natural gas sales	18,001	8,390
Royalties	(1,597)	(609)
Interest income	18	160
	<b>16,422</b>	<b>7,941</b>
<b>EXPENSES</b>		
Operating	4,141	1,908
Transportation	945	561
General and administrative	1,774	1,713
Transaction costs	-	12
Exploration expense	-	67
Share-based compensation (note 11)	858	940
Interest and financing charges	84	36
Depletion, depreciation and amortization (notes 7 and 8)	7,206	4,098
Accretion of decommissioning liability (note 10)	146	45
Impairment (note 8)	1,514	-
	<b>16,668</b>	<b>9,380</b>
Loss before other income	<b>(246)</b>	<b>(1,439)</b>
<b>OTHER INCOME</b>		
Gain on investment	-	120
Gain on disposition of assets (note 6)	143	70
Loss and comprehensive loss	<b>(103)</b>	<b>(1,249)</b>
Loss per share, basic and diluted (note 11d)	-	(0.01)

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(\$000)	Share capital	Performance warrants	Contributed surplus	Deficit	Total Equity
<b>Balance, December 31, 2015</b>	37,712	289	2,631	(3,306)	37,326
Repurchase of performance warrants	-	(5)	-	-	(5)
Share-based compensation expense (note 11)	-	572	368	-	940
Share-based compensation capitalized (note 11)	-	82	88	-	170
Loss for the year	-	-	-	(1,249)	(1,249)
<b>Balance, December 31, 2016</b>	<b>37,712</b>	<b>938</b>	<b>3,087</b>	<b>(4,555)</b>	<b>37,182</b>
Share-based compensation expense (note 11)	-	549	309	-	858
Share-based compensation capitalized (note 11)	-	118	110	-	228
Loss for the year	-	-	-	(103)	(103)
<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>

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000)	2017	2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the year	(103)	(1,249)
Items not involving cash:		
Depletion, depreciation and amortization (notes 7 and 8)	7,206	4,098
Accretion of decommissioning liability (note 10)	146	45
Share-based compensation (note 11)	858	940
Impairment (note 8)	1,514	-
Gain on investment	-	(120)
Gain on disposition of assets (note 6)	(143)	(70)
Decommissioning liabilities settled (note 10)	(54)	(9)
Change in non-cash working capital (note 15)	124	(1,298)
	<b>9,548</b>	<b>2,337</b>
<b>CASH FLOW FROM (USED IN) FINANCING ACTIVITIES</b>		
Increase in bank debt (note 9)	4,252	-
Repurchase of performance warrants	-	(5)
	<b>4,252</b>	<b>(5)</b>
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>		
Property and equipment expenditures	(15,888)	(6,811)
Exploration and evaluation asset expenditures	(6,414)	(6,713)
Property acquisitions (note 6)	-	(4,093)
Property dispositions (note 6)	1,105	125
Non-current deposit	(345)	-
Disposition of investment	-	358
Change in non-cash working capital (note 15)	(917)	1,072
	<b>(22,459)</b>	<b>(16,062)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,659)</b>	<b>(13,730)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>8,659</b>	<b>22,389</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>-</b>	<b>8,659</b>
<b>Cash and cash equivalents consists of:</b>		
Cash in bank account	-	2,528
Cash in short-term investments	-	6,131
	-	8,659
Cash interest paid	84	36

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2017 and 2016

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## 1. REPORTING ENTITY

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

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

These consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on March 21, 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.

*Critical judgments in applying accounting policies:*

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

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

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

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

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

*Key sources of estimation uncertainty:*

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

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

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

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

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

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Revenue recognition

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

#### (b) Cash and cash equivalents

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

#### (c) Jointly owned assets

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

#### (d) Share-based compensation

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

#### (e) Exploration and evaluation assets

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

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

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

#### (f) Property and equipment

Property and equipment, which include D&P assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. D&P assets include mineral lease

acquisitions, geological and geophysical, drilling and completion, facility and production equipment, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

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

#### **(g) Depletion and depreciation**

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

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

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

#### **(h) Impairment**

##### Developed and Producing Assets

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

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

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

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

##### Exploration and Evaluation Assets

E&E assets are assessed for impairment when E&E assets are transferred to development and production assets once an area is determined to be technically feasible and commercially viable, and any time that circumstances arise which suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the greater of fair value less cost to sell or value in use.

**(i) Financial instruments**

Non-derivative financial instruments

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

**(j) Decommissioning liabilities**

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

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

**(k) Business combinations**

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

**(l) Deferred income taxes**

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

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

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

**(m) Per share amounts**

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

**(n) Interest income and expenses**

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

**(o) Flow-through shares**

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

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

**(p) Share capital**

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

#### **4. FUTURE CHANGES IN ACCOUNTING POLICIES**

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Altura has reviewed its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have an impact on the Corporation's net income and financial position. However, Altura will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing disaggregated revenue streams by product type.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option

is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. IFRS 9 also contains a new model to be applied for hedge accounting. The Corporation does not currently have any risk management contracts. Altura has determined that the adoption of IFRS 9 will not have a material impact on the measurement and carrying values of the Corporation's financial assets or liabilities. IFRS 9, as well as consequential amendments to IFRS 7, Financial Instruments: Disclosures, will be applied on a retrospective basis by Altura on January 1, 2018.

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 Corporation is currently in the contract identification stage of its IFRS 16 project and is evaluating the impact of the standard on Altura's financial statements.

## 5. DETERMINATION OF FAIR VALUES

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

### *(i) Property and equipment and exploration and evaluation assets*

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

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

The fair value of cash and cash equivalents, if any, accounts receivable, deposits, accounts payable and accrued liabilities and bank debt are estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2017 and December 31, 2016, the fair value of these balances approximated their carrying value due to their short term to maturity. The Corporation's bank debt bears interest at a floating rate and the margins charged by the lender are indicative of current credit spreads. Accordingly the fair market value approximates the carrying value.

### *(iii) Share-based payments*

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

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

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

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

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

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

## 6. ACQUISITIONS AND DISPOSITIONS

### (a) Property and Equipment, and Exploration and Evaluation Acquisitions and Dispositions

In October 2017, Altura entered into an asset exchange arrangement in which Altura divested of minor producing and non-producing properties for cash of \$355,000 and non-cash consideration valued at \$17,000 which included a pipeline, a non-producing wellbore and undeveloped land. The fair market value of the proceeds received and assets exchanged approximated net book value, therefore, no gain or loss was recorded on the transaction.

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 year ended December 31, 2017.

On September 14, 2016, Altura closed the acquisition of a producing petroleum and natural gas asset in the Killam area of Alberta for cash consideration of \$4.1 million. The acquisition was 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.

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

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

### (b) Sale of Investment

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

## 7. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2015	1,768
Additions	6,789
Transfers to property and equipment	(933)
Change in decommissioning costs	406
Depletion	(165)
Balance, December 31, 2016	<b>7,865</b>
Additions	6,477
Acquisition (note 6)	475
Dispositions (note 6)	(643)
Transfer to property and equipment net of depletion (note 8)	(9,695)
Change in decommissioning costs	257
Depletion	(219)
<b>Balance, December 31, 2017</b>	<b>4,517</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 \$190,000 in the year ended December 31, 2017 (December 31, 2016 – \$217,000).

In 2017, an impairment test was conducted on the transfer of \$9.7 million of E&E assets to property and equipment. No impairment was recorded on the transfer. Additionally, Altura evaluated its remaining E&E assets at December 31, 2017 for indicators of any potential impairment. As a result of this assessment, no impairment was recorded on Altura's E&E assets.

## 8. 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, 2015	22,636	35	22,671
Additions	6,929	5	6,934
Acquisition (note 6)	5,225	-	5,225
Disposition (note 6)	(124)	-	(124)
Transfers from E&E assets (note 7)	933	-	933
Change in decommissioning costs	1,938	-	1,938
Balance, December 31, 2016	37,537	40	37,577
Additions	16,061	8	16,069
Disposition (note 6)	(1,671)	-	(1,671)
Transfers from E&E assets (note 7)	10,080	-	10,080
Change in decommissioning costs	93	-	93
<b>Balance, December 31, 2017</b>	<b>62,100</b>	<b>48</b>	<b>62,148</b>
<b>Depletion, depreciation and impairment</b>			
<b>(\$000)</b>			
Balance, December 31, 2015	(6,608)	(8)	(6,616)
Depletion, depreciation and amortization	(3,924)	(9)	(3,933)
Disposition	15	-	15
Balance, December 31, 2016	(10,517)	(17)	(10,534)
Depletion, depreciation and amortization	(6,979)	(8)	(6,987)
Disposition (note 6)	816	-	816
Transfers from E&E assets (note 7)	(385)	-	(385)
Impairment	(1,514)	-	(1,514)
<b>Balance, December 31, 2017</b>	<b>(18,579)</b>	<b>(25)</b>	<b>(18,604)</b>
<b>Carry amounts</b>			
<b>(\$000)</b>			
As at December 31, 2016	27,020	23	27,043
<b>As at December 31, 2017</b>	<b>43,521</b>	<b>23</b>	<b>43,544</b>

At December 31, 2017, estimated future development costs of \$40.2 million (December 31, 2016 – \$16.8 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$493,000 in the year ended December 31, 2017 (December 31, 2016 – \$197,000).

### Impairment

At December 31, 2017, Altura determined there to be indicators of impairment for the Killam CGU due to drilling results and associated reserve additions not being as strong as anticipated compared to capital invested. Consequently, the Corporation recognized an impairment charge of \$1.5 million on its D&P assets related to the Killam CGU due to the carrying values in the Killam CGU exceeding the recoverable amount. The recoverable amount (determined using fair value less cost to sell) of a CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The recoverable amount for the Killam CGU assets was \$3.4 million, net of decommissioning obligations, which was based on the proved plus probable reserve values from Altura's December 31, 2017 reserve report prepared by its independent reserve engineer. The recoverable amount of the CGU was estimated based on proved plus probable reserve values using before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Killam CGU and values for undeveloped land. The discount rates



used in the valuation ranged from 12.5% to 25.0%, with an overall weighted average discount rate of approximately 19%.

In determining the future cash flows, the Corporation utilized the following benchmark pricing forecasts:

	<b>WTI Crude Oil (\$US/bbl) <sup>(1,2)</sup></b>	<b>Western Canadian Select Crude Oil (\$CAD/bbl) <sup>(1,2)</sup></b>	<b>Alberta AECO Gas (\$CAD/mmbtu) <sup>(1,2)</sup></b>	<b>Foreign Exchange (\$US/\$CAD) <sup>(1)</sup></b>
2018	58.50	51.90	2.25	0.790
2019	58.70	57.00	2.65	0.790
2020	62.40	61.40	3.05	0.800
2021	69.00	66.00	3.40	0.825
2022	73.10	67.90	3.60	0.850
2023	74.50	69.20	3.65	0.850
2024	76.00	70.60	3.75	0.850
2025	77.50	72.00	3.80	0.850
2026	79.10	73.50	3.90	0.850
2027	80.70	74.90	3.95	0.850
2028	82.30	76.40	4.05	0.850
2029	83.90	77.90	4.15	0.850
2030	85.60	79.50	4.25	0.850
2031	87.30	81.10	4.30	0.850
2032	89.10	82.70	4.35	0.850

(1) Source: Independent external reserves evaluator. January 1, 2018 price forecast.

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

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

## 9. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender") with a maximum borrowing limit of \$10.0 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.5 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

The Credit Facility is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a \$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 December 31, 2017, the working capital ratio as defined was 4.2:1 (December 31, 2016 – 5.9:1). The next review date for the Credit Facility has been set for May 31, 2018.

As at December 31, 2017, \$4.3 million (December 31, 2016 - \$nil) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for \$201,000 (December 31, 2016 - \$50,000).

## 10. DECOMMISSIONING LIABILITY

The Corporation's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Altura estimates the total undiscounted and un-escalated amount of cash flows required to settle its decommissioning obligations as at December 31, 2017 to be approximately \$6.6 million (December 31, 2016 – \$6.3 million) with the majority of costs anticipated to be incurred between 2026 and 2038. A risk-free discount rate of 2.3 percent (December 31, 2016 – 2.3 percent) and an inflation rate of 2.0 percent (December 31, 2016 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Year ended December 31, 2017	Year ended December 31, 2016
Balance, beginning of year	6,181	2,626
Additions	595	1,028
Liabilities acquired	-	1,200
Liabilities disposed	(45)	(25)
Change in estimates <sup>(1)</sup>	(245)	(1,393)
Revaluation of liabilities acquired <sup>(2)</sup>	-	2,709
Decommissioning liabilities settled	(54)	(9)
Accretion	146	45
Balance, end of year	6,578	6,181
Expected to be incurred within one year	66	-
Expected to be incurred beyond one year	6,512	6,181

- (1) The change in estimates consists of a change in the risk-free discount rate of \$32,000 (December 31, 2016 - \$1,055,000) and a change in abandonment and remediation cost estimates and future abandonment dates of \$277,000 credit (December 31, 2016 - \$338,000).
- (2) Amount relates to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisition, the decommissioning obligations were estimated using a credit adjusted discount rate of 10%.

## 11. SHARE CAPITAL

- (a) Authorized:
- Unlimited number of voting common shares.
  - Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance.
- (b) Issued and outstanding:

	Number of common shares	Amount (\$000)
<b>Balance, December 31, 2015, December 31, 2016, and December 31, 2017</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.

No stock options were exercised in the years ended December 31, 2017 and 2016.

A summary of the Corporation's outstanding stock options at December 31, 2017 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2015	3,950,000	0.34
Granted	2,120,000	0.27
Forfeited	(500,000)	0.34
Balance, December 31, 2016	5,570,000	0.31
Granted	1,640,000	0.41
<b>Balance, December 31, 2017</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 December 31, 2017 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	3.7	0.33	3,006,662	3.1	0.32
		<b>7,210,000</b>	<b>3.7</b>	<b>0.33</b>	<b>3,006,662</b>	<b>3.1</b>	<b>0.32</b>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Weighted average fair value of options granted (\$)	<b>0.26</b>	0.18
Risk-free interest rate (%)	<b>1.66</b>	0.79
Expected life (years)	<b>3.5</b>	3.5
Expected volatility (%)	<b>94.6</b>	100.4
Estimated forfeiture rate (%)	<b>5.0</b>	5.0
Expected dividends (\$)	-	-

The Corporation's share-based payments relating to stock options for the year ended December 31, 2017 was \$419,000 (December 31, 2016 – \$456,000) of which \$110,000 was capitalized (December 31, 2016 – \$88,000).

(d) Weighted average common shares:

	Year ended December 31, 2017	Year ended December 31, 2016
Basic	<b>108,920,973</b>	108,920,973
Diluted	<b>108,920,973</b>	108,920,973

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 year.

For the year ended December 31, 2017, 7,210,000 stock options and 9,749,879 performance warrants were excluded from the weighted average number of common shares as they were anti-dilutive (2016 – 5,570,000 stock options and 9,749,879 warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at December 31, 2017 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2015	10,223,953	0.449
Forfeited	(474,074)	0.449
<b>Balance, December 31, 2016 and December 31, 2017</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 December 31, 2017 no warrants are exercisable. On the grant date, the weighted average fair value of \$0.27 per performance warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based payments relating to performance warrants for the year ended December 31, 2017 was \$667,000 (2016 – \$654,000) of which \$118,000 was capitalized (2016 – \$82,000). The fair value of the performance warrants is being expensed over the expected life.

## 12. INCOME TAXES

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

(\$000)	Year ended December 31, 2017	Year ended December 31, 2016
Loss before income taxes	(103)	(1,249)
Combined federal and provincial income tax rate	27%	27%
Computed income tax expense (recovery)	(28)	(337)
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	245	259
Non-deductible expenses	2	2
Change in estimates and other	(28)	(8)
Non-deductible portion of capital loss	-	(16)
Change in unrecognized deferred tax asset	(191)	100
	-	-

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

(\$000)	December 31, 2017	December 31, 2016
Deferred income tax liabilities:		
Property and equipment and E&E assets	(3,720)	(3,110)
Deferred income tax assets:		
Decommissioning liability	1,776	1,669
Non-capital losses	1,890	1,375
Capital losses	23	16
Share issue costs	31	50
Deferred tax asset (liabilities)	-	-

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

(\$000)	December 31, 2017	December 31, 2016
Temporary differences associated with unrecognized deferred tax assets:		
Non-capital losses	1,531	2,296

Altura has non-capital losses of \$8.5 million at December 31, 2017 that expire between 2025 and 2037.

### 13. FINANCIAL INSTRUMENTS

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

#### Credit Risk

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

The majority of the credit exposure on accounts receivable at December 31, 2017, pertains to revenue for accrued December 2017 production volumes. Altura primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. A significant portion of Altura's accounts receivable is carried by two marketing companies with sound financial positioning. At December 31, 2017, 44 percent and 21 percent of total outstanding accounts receivable pertains to these companies. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at December 31, 2017. For the year ended December 31, 2017, the Corporation received approximately 65 percent, 17 percent, and 12 percent of its revenue from three marketing companies (2016 – 50 percent and 37 percent from two marketing companies).

At December 31, 2017, the Corporation's trade receivables have been aged as follows:

As at (\$000)	December 31, 2017	December 31, 2016
Current	1,949	1,835
31 – 60 days	75	244
61 – 90 days	178	58
> 90 days	95	139
Allowance for doubtful accounts	-	-
Total	2,297	2,276

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Altura considers all amounts greater than 90 days to be past due. At December 31, 2017 management determined all accounts receivable to be collectable.

## **Liquidity Risk**

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

## **Market Risk**

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

### *Commodity Price Risk*

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Corporation's cash flows and borrowing base limit under its credit facility. Lower commodity prices may also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States of America, but also by world events that dictate the levels of supply and demand. The Corporation had no risk management contracts that would be affected by commodity prices in place at December 31, 2017.

### *Foreign currency risk*

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Altura for its petroleum and natural gas sales. The Corporation had no risk management contracts that would be affected by foreign currency changes in place at December 31, 2017.

### *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's credit facility is exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates. The Corporation had no risk management contracts that would be affected by interest rates in place at December 31, 2017.

If interest rates were to increase or decrease by one percent, it is estimated that Altura's loss would change by approximately \$5,000 for the year ended December 31, 2017 using the average monthly bank debt outstanding under Altura's Credit Facility for the year ended December 31, 2017.

## **14. CAPITAL MANAGEMENT**

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

The key measure that the Corporation utilizes in evaluating its capital structure is net debt to annualized adjusted funds flow, which is defined as bank debt plus working capital, to annualized adjusted funds flow (based on the most recent quarter), defined as cash flow from operating activities before changes in non-cash working capital,

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

The Corporation monitors this ratio and endeavors to maintain it at, or below, 1.0 to 1.0 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, as at December 31, 2017 and 2016, the Corporation's ratio of net debt to annualized adjusted funds flow was 0.4 times and nil, respectively.

(\$000)	<b>December 31, 2017</b>	December 31, 2016
Net debt (working capital surplus) <sup>(1)</sup>	<b>3,729</b>	(8,455)
Annualized adjusted funds flow:		
Quarterly cash flow from operating activities	<b>1,940</b>	1,683
Changes in non-cash working capital	<b>570</b>	508
Decommissioning expenditures	<b>16</b>	6
Quarterly adjusted funds flow	<b>2,526</b>	2,197
Annualized adjusted funds flow	<b>10,104</b>	8,788
Net debt to annualized adjusted funds flow	<b>0.4</b>	-

(1) Net debt is equivalent to working capital deficit.

The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There have been no changes in the Corporation's approach to capital management in 2017.

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	<b>Year ended December 31, 2017</b>	Year ended December 31, 2016
Provided by (used in):		
Accounts receivable	<b>(21)</b>	(1,808)
Prepaid expenses and deposits	<b>(32)</b>	(42)
Accounts payable and accrued liabilities	<b>(740)</b>	1,556
Working capital acquired in acquisition	<b>-</b>	68
	<b>(793)</b>	(226)
Provided by (used in):		
Operating activities	<b>124</b>	(1,298)
Investing activities	<b>(917)</b>	1,072
	<b>(793)</b>	(226)

## 16. PERSONNEL EXPENSES

The aggregate compensation of key management personnel was as follows:

(\$000)	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and benefits	1,400	874
Termination benefits	-	173
Share-based compensation	1,086	1,085
	<b>2,486</b>	2,132

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



# 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**

