2018
FOURTH QUARTER REPORT

OPERATIONAL AND FINANCIAL SUMMARY

	Three months ended			Year ended	
	December 31, 2018	September 30, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
OPERATING					
Average daily production					
Heavy oil (Bbls/d)	**1,044**	805	544	**720**	369
Medium oil (Bbls/d)	**46**	51	414	**193**	557
Natural gas (Mcf/d)	**1,699**	1,128	1,286	**1,369**	1,085
NGLs (Bbls/d)	**38**	23	30	**30**	22
Total (Boe/d)	**1,412**	1,067	1,202	**1,172**	1,128
Total Boe/d per million shares – diluted	**12.8**	9.5	11.0	**10.6**	10.3
Average realized prices					
Heavy oil ($/Bbl)	**25.28**	56.59	55.73	**43.46**	51.41
Medium oil ($/Bbl)	**51.44**	66.74	48.54	**57.94**	46.75
Natural gas ($/Mcf)	**1.74**	1.23	1.81	**1.63**	2.33
NGLs ($/Bbl)	**40.19**	51.30	45.46	**47.57**	42.79
Total ($/Boe)	**23.57**	48.29	44.22	**39.40**	43.72
($/Boe)					
Petroleum and natural gas sales	**23.57**	48.29	44.22	**39.40**	43.72
Royalties	**(2.40)**	(4.57)	(3.24)	**(3.93)**	(3.88)
Operating	**(6.16)**	(7.09)	(9.72)	**(8.90)**	(10.06)
Transportation	**(2.45)**	(2.17)	(1.86)	**(2.03)**	(2.29)
Operating netback[1]	**12.56**	34.46	29.40	**24.54**	27.49
General and administrative	**(5.99)**	(4.25)	(6.20)	**(4.92)**	(4.31)
Exploration expense	**(0.04)**	(0.21)	-	**(0.06)**	-
Interest and financing expense	**(0.18)**	(0.03)	(0.38)	**(0.37)**	(0.20)
Interest income	**-**	0.34	-	**0.12**	0.04
Adjusted funds flow per Boe[1]	**6.35**	30.31	22.82	**19.31**	23.02
FINANCIAL ($000, except per share amounts)					
Petroleum and natural gas sales	**3,062**	4,741	4,893	**16,847**	18,001
Adjusted funds flow[1]	**826**	2,977	2,526	**8,256**	9,478
Per share – diluted[1]	**0.01**	0.03	0.02	**0.07**	0.09
Net income (loss)	**(984)**	750	(1,032)	**2,693**	(103)
Per share – diluted[2]	**(0.01)**	0.01	(0.01)	**0.02**	-
Capital expenditures	**3,050**	16,717	3,083	**33,456**	22,302
Property acquisitions/(dispositions), net	**986**	2,637	(355)	**(24,089)**	(1,105)
Total capital expenditures, acquisitions and dispositions	**4,036**	19,354	2,728	**9,367**	21,197
Net debt[1]	**4,820**	1,887	3,729	**4,820**	3,729
Common shares outstanding (000)					
End of period – basic	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – basic[2]	108,921	108,921	108,921	108,921	108,921
Weighted average for the period – diluted[2]	110,260	112,281	109,570	110,412	109,138

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

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

PRESIDENT'S MESSAGE

2018 ACHIEVEMENTS

- Drilled 10 (9.95 net) wells, including nine (8.95 net) extended reach horizontal ("ERH") wells in the Leduc-Woodbend area and one (1.0 net) horizontal well in the Macklin area. Additionally, the Corporation invested in key infrastructure at Leduc-Woodbend including the construction of a multi-well battery and a natural gas gathering pipeline that connects Altura's northern area production to a third-party gas plant.
- Reduced operating and transportation costs to $10.93 per Boe, down 11 percent from 2017. This decrease is largely a result of lower-cost production growth into the new multi-well battery at Leduc-Woodbend and a disposition which had higher average operating costs.
- Closed the sale of its eastern Alberta and Saskatchewan assets (the "Disposition") producing 668 Boe per day in May 2018 for $27.3 million (net of transaction costs and adjustments) leaving Altura with production of 502 Boe per day in June.
- Generated adjusted funds flow[1] of $8.3 million ($19.31 per Boe), or $0.07 per share and net income of $2.7 million, up from a net loss of $0.1 million in 2017.
- Total capital expenditures, acquisitions and dispositions (including transactions costs on the Disposition) was $9.8 million which was only $1.5 million higher than adjusted funds flow[1] and resulted in fourth quarter production increasing 17 percent over last year on an absolute and per share basis.
- Finding and development costs[2] ("FD&A") were $17.30 per Boe for proved developed producing ("PDP"), $16.48 per Boe for total proved ("1P") and $12.53 per Boe for total proved plus probable ("2P") reserves, including the changes in future development costs.
- Produced an average of 1,172 Boe per day (81 percent oil and liquids), an increase of four percent from 2017 on an absolute and per share basis. This production growth was achieved despite the May 2018 disposition of 668 Boe per day.
- Closed two acquisitions in the Leduc-Woodbend area for an aggregate cash consideration of $3.6 million. The Corporation acquired 3.0 net sections of highly prospective lands in the Upper Mannville oil pool which added eight net ERH equivalent potential drilling opportunities[3] to the well inventory and a 60 percent working interest, including operatorship, of an oil unit producing approximately 120 net Boe per day (90 percent oil & liquids) of low decline Glauconitic 33° API oil.
- Maintained a conservative balance sheet with net debt[1] of $4.8 million at December 31, 2018, or 0.6 times annual 2018 adjusted funds flow[1].

FOURTH QUARTER 2018 HIGHLIGHTS

- Produced an average of 1,412 Boe per day, an increase of 32 percent from the third quarter of 2018 and 17 percent from the fourth quarter of 2017, respectively, on an absolute and per share basis. Production increased to 2,053 Boe per day in October but was voluntarily curtailed in November to 1,512 Boe per day and in December to 675 Boe per day due to weak oil prices caused by wide Canadian oil differentials.

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

2 Finding, development & acquisitions costs or FD&A costs, does not have a standardized meaning. See the "Advisories" section of Altura's MD&A.

3 Refer to the "Advisories" section of Altura's MD&A for information on potential drilling opportunities.

- Reduced operating and transportation costs to $8.61 per Boe, down seven percent from the third quarter of 2018 and down 26 percent from the fourth quarter of 2017. This decrease is largely a result of lower cost production growth into the new multi-well battery at Leduc-Woodbend and the Disposition which had higher average operating costs.
- Capital expenditures including acquisitions totaled $4.0 million which included one well completion, facility work at the previously commissioned multi-well battery to optimize fluid processing, initial costs related to an electrification project at the multi-well battery and associated pad sites and an acquisition for $1.0 million.
- Generated adjusted funds flow[1] of $0.8 million, or $0.01 per share. Compared to last year, adjusted funds flow[1] declined by $16.47 per Boe with the decrease of $3.56 per Boe in operating costs being more than offset by a decrease of $20.65 per Boe in petroleum and natural gas sales as a result of weaker oil prices caused by wider Canadian oil differentials.

FOURTH QUARTER REVIEW

The Canadian energy sector faced numerous challenges in the fourth quarter of 2018. The lack of pipeline access to international oil markets, the temporary seasonal maintenance of oil refineries in the United States, slow growth in the crude-by-rail option to transport crude to the United States, full Canadian oil storage and the growth of Canadian oil production all contributed to the fourth quarter widening of crude differentials and significantly reduced realized prices for Canadian light, medium and heavy crude oil.

After achieving record production of 2,053 Boe per day in October, production volumes were voluntarily curtailed in November and December in response to weak oil prices caused by extremely wide Canadian oil differentials. Even with the curtailments, production volumes averaged 1,412 Boe per day, which equated to per share increases of 32 percent from the third quarter of 2018 and 17 percent from the fourth quarter of 2017, respectively.

Altura achieved significant per unit cost reductions in 2018 with operating and transportation costs decreasing 26 percent to $8.61 per Boe in the fourth quarter from $11.58 per Boe in the fourth quarter of 2017. The decrease in per unit costs was mainly due to Altura's growth of lower-cost production and the completion of the multi-well battery at Leduc-Woodbend that enabled the Corporation to treat emulsion and dispose water on site. In addition, Altura realized operating costs savings from the Disposition, which had higher average operating costs.

The Corporation's operating netback[1] averaged $12.56 per Boe, down 63 percent from the third quarter of 2018 and 57 percent from the fourth quarter of 2017. The decrease was due to the 59 percent decline in the WCS oil price in the quarter, partially mitigated by the operating and transportation costs reductions and lower royalties.

Adjusted funds flow[1] was $0.8 million in the fourth quarter of 2018, down 72 percent from the third quarter of 2018 and down 67 percent from the fourth quarter of 2017 due primarily to the decline in realized oil prices.

Altura invested $3.1 million at Leduc-Woodbend in the fourth quarter that included one well completion, facility work at the previously commissioned multi-well battery to optimize fluid processing, and initial costs related to an electrification project at the multi-well battery and associated pad sites.

2018 RESERVES

The independent evaluation of the Corporation's oil and natural gas reserves (the "McDaniel Report") was prepared in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 ("NI 51-101"). Year-over-year, proved developed producing ("PDP") reserves increased by eight percent from 1,595 MBoe to 1,725 MBoe. Total proved ("1P") reserves increased by 102 percent from 3,107 MBoe to 6,270 MBoe. Total proved plus probable ("2P") reserves increased by 89 percent from 5,370 MBoe to 10,126 MBoe. Percentage increases were the same on a per share basis.

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

These reserve additions were achieved notwithstanding the reserve reductions from the Disposition which represented 73 percent, 49 percent and 60 percent of the Corporation's year-end 2017 PDP, 1P and 2P reserve volumes respectively. See Altura's March 5, 2019 news release entitled, "Altura Energy Inc. Announces 2018 Reserves, an Operational Update and 2019 Guidance" available on Altura's website at www.alturaenergy.ca and as filed on SEDAR at www.sedar.com. In addition to the information contained in the March 5, 2019 news release, more detailed reserves information will be included in Altura's Annual Information Form for the year ended December 31, 2018, which will be filed on SEDAR by April 30, 2019.

FIRST QUARTER 2019 UPDATE

The last well of Altura's 2018 summer drilling program, which was drilled and completed in 2018, was equipped for production in January 2019. The well commenced production on February 4, 2019 and initial production rates are consistent with the Corporation's other wells in the Leduc-Woodbend area. Corporate production in January 2019 was re-established at 2,000 Boe per day based on field estimates.

OUTLOOK

Corporate guidance for 2019 remains as previously announced with a capital budget of $15 million. The capital program is weighted to the second half of 2019 and includes drilling four ERH wells at Leduc-Woodbend. Additionally, Altura plans to implement a waterflood pilot project at Leduc-Woodbend which includes drilling on reduced inter-well spacing.

Altura's base production coupled with production from its capital program is forecasted to grow annual average production to between 1,700 to 1,800 Boe per day in 2019, compared to 1,172 Boe per day in 2018, representing more than a 45 percent increase on an absolute and per share basis.

Canadian oil prices have increased materially in the first quarter of 2019. In response to the extremely wide Canadian oil differentials in the fourth quarter, the Alberta government introduced mandatory production curtailment to balance the market and reduce crude oil differentials. The curtailment commenced in January 2019 and Canadian oil differentials have tightened significantly. WCS prices for January and February 2019 improved to US$34 and US$45 per barrel, respectively, from US$6 per barrel in December 2018.

Management intends to continuously monitor well performance and commodity prices throughout the year and may at any time adjust the 2019 capital program if well performance is exceeding expectations or if oil prices deteriorate or strengthen. The budget leaves Altura with a conservative balance sheet and the flexibility to accelerate development in the second half of 2019 if results and commodity prices are supportive.

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

Respectfully,

/s/ David Burghardt
President and Chief Executive Officer
March 20, 2019

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 20, 2019 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, 2018 and 2017, as well as the Corporation's annual information form that is filed on SEDAR at www.sedar.com. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

DESCRIPTION OF BUSINESS

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

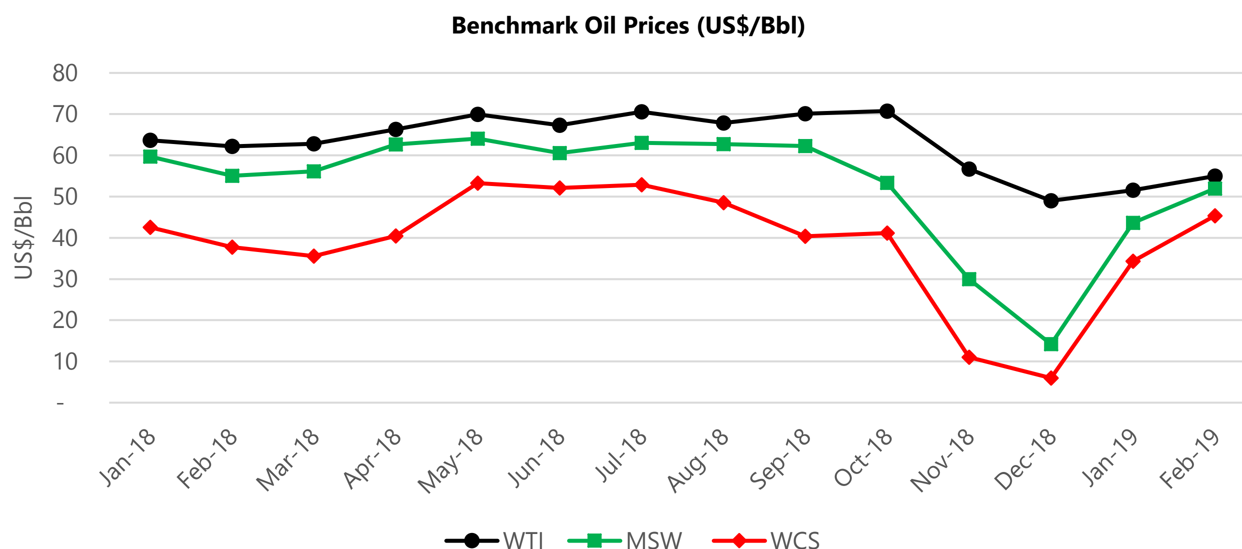
ECONOMIC ENVIRONMENT

The Canadian energy sector faced numerous challenges in the fourth quarter of 2018. The lack of pipeline access to international oil markets, the temporary seasonal maintenance of oil refineries in the United States, the slowly growing crude-by-rail option to transport crude to the United States, full Canadian oil storage and the growth of Canadian oil production contributed to the fourth quarter widening of crude differentials and significantly reduced realized prices for Canadian light, medium and heavy crude oil.

The two primary Canadian benchmark crude prices, Mixed Sweet Blend ("MSW") and Western Canada Select heavy ("WCS") were approximately US$63 per barrel and US$47 per barrel, respectively during the third quarter of 2018. In December 2018 the rapid widening in the MSW and WCS differentials caused these two benchmarks to fall dramatically to US$14 per barrel and US$6 per barrel. Altura primarily sells its oil based on WCS at Hardisty, which decreased 59 percent in the fourth quarter of 2018 relative to the third quarter of 2018 and decreased 54 percent relative to the fourth quarter of 2017.

The Corporation reacted by limiting production from newly drilled wells and reducing production from existing wells for the months of November and December. The impact of well shut-ins resulted in curtailed production of approximately 500 Boe per day in November and 1,400 Boe per day in December. Altura's production for the month of January 2019 averaged approximately 2,000 Boe per day.

Canadian oil prices have increased materially in the first quarter of 2019. In response to the extremely wide Canadian oil differentials in the fourth quarter, the Alberta government introduced mandatory production curtailment to balance the market and reduce crude oil differentials. The curtailment commenced in January 2019 and Canadian oil differentials have tightened significantly. WCS prices for January and February 2019 improved to US$34 and US$45 per barrel, respectively, from US$6 per barrel in December 2018.



2018 GUIDANCE

2018 guidance is provided below along with a comparison to actuals. Previous 2018 guidance was updated in the Corporation's press release dated November 9, 2018 and Altura's Third Quarter 2018 MD&A. Copies of the press release and MD&A are available under Altura's profile on SEDAR at www.sedar.com or on Altura's website at www.alturaenergy.ca.

	November 9, 2018 Guidance	Actual
2018 exit production rate(1) (Boe/d)	1,000–2,000	675
2018 capital expenditures (excluding A&D) ($000)	33,000	33,456
2018 well-related capital(2)($000)	25,700	25,673
2018 capital efficiency(3) ($/Boe/d)	16,200	15,480
H2 2018 royalty rate (%)	8%–10%	9.8%
H2 2018 operating and transportation costs ($/Boe)	9.50–11.00	8.89

(1) 2018 exit rate production is the monthly production volumes for December 2018.
(2) Well-related capital includes drilling, completions, workovers, equipping and tie-in capital.
(3) Capital efficiency equals well related capital divided by the 365-day forecasted average production rate ("IP365") from new wells drilled. Material guidance assumptions include Altura's well related capital of $25.7 million and forecasted IP365 of 1,590 Boe/d from 10 wells drilled in 2018.

In October 2018 Altura's corporate production averaged 2,053 Boe per day (81 percent oil and liquids), which was in-line with exit rate guidance. However, November and December production volumes were voluntarily curtailed in response to weak oil prices caused by wide Canadian oil differentials. As a result, the Corporation's average production for December was lower than the range provided in the November 9, 2018 guidance. Production for January was resumed and is estimated at 2,000 BOE per day.

Altura's 2018 capital expenditures exceeded guidance by $0.5 million in 2018. The variance is related to additional facility work at the previously commissioned multi-well battery to optimize fluid processing and initial costs related to an electrification project at the multi-well battery and associated pad sites.

Operating and transportation costs were lower than guidance due to growth in lower cost production at Leduc-Woodbend.

EAST CENTRAL ALBERTA AND SASKATCHEWAN ASSET DISPOSITION

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets (the "Provost Disposition"), to an unrelated third party, in east central Alberta and Saskatchewan, which included the Eyehill, Eyehill South, Macklin, Wildmere, Killam and Provost Minor areas. The gross consideration for the Provost Disposition totaled $28,375,000. Consideration, net of customary post-closing adjustments of $699,000 and transaction costs of $411,000, totaled $27,265,000. Altura recorded a gain of $2,839,000 on the disposition for the year ended December 31, 2018.

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

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

LEDUC-WOODBEND ASSET ACQUISITIONS

On July 31, 2018, the Corporation closed an acquisition of 2.6 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 40 percent working interest in a producing oil unit in the Leduc-Woodbend area of Alberta (the "First Acquisition") from a third-party for cash consideration of $2,596,000, net of customary post-closing adjustments. The effective date of the transaction was April 1, 2018.

On December 21, 2018, the Corporation closed a second agreement (the "Second Acquisition") to purchase 0.4 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 20 percent working interest in the producing oil unit from a second third-party for cash consideration of $1,001,000, net of customary post-closing adjustments. The effective date of the transaction was July 1, 2018.

SELECTED ANNUAL INFORMATION

($000, except per share amounts)	**2018**	2017	2016
Petroleum and natural gas sales	**16,847**	18,001	8,390
Adjusted funds flow[(1)]	**8,256**	9,478	3,656
Per share – diluted[(1)]	**0.07**	0.09	0.03
Net income (loss)[(2)]	**2,693**	(103)	(1,249)
Per share – basic and diluted	**0.02**	-	(0.01)
Capital expenditures	**33,456**	22,302	13,524
Property acquisitions/(dispositions), net	**(24,089)**	(1,105)	3,968
Total capital expenditures, acquisitions and dispositions	**9,367**	21,197	17,492
Total assets	**54,023**	50,807	45,915
Net debt (working capital surplus) [(1)]	**4,820**	3,729	(8,455)
Common shares outstanding (000)			
End of period – basic	**108,921**	108,921	108,921
Weighted average for the period – basic	**108,921**	108,921	108,921
Weighted average for the period – diluted[(2)]	**110,412**	109,138	108,921

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

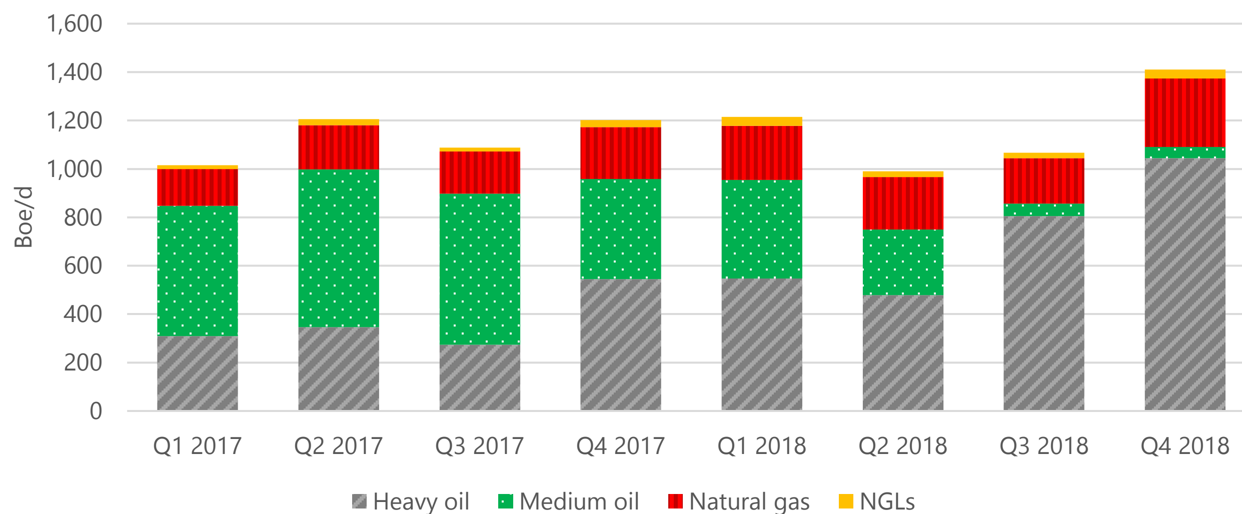
(2) Basic weighted average shares are used to calculate diluted per share amounts when the Corporation is in a loss position.

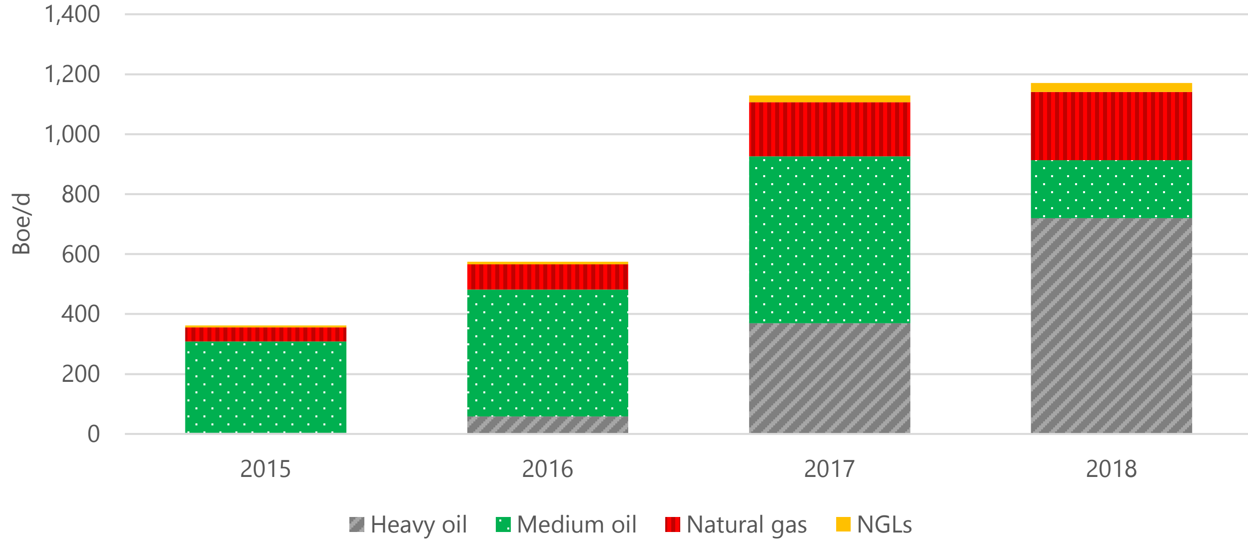
RESULTS OF OPERATIONS

Production

	Three months ended December 31			Year ended December 31		
	2018	2017	% Change	**2018**	2017	% Change
Heavy oil (Bbls/d)	**1,044**	544	92	**720**	369	95
Medium oil (Bbls/d)	**46**	414	(89)	**193**	557	(65)
Natural gas (Mcf/d)	**1,699**	1,286	32	**1,369**	1,085	26
Natural gas liquids ("NGLs") (Bbls/d)	**38**	30	27	**30**	22	36
Total (Boe/d)	**1,412**	1,202	17	**1,172**	1,128	4
Oil and natural gas liquids % of production	**80%**	82%	(2)	**81%**	84%	(4)

During the fourth quarter of 2018, daily production volumes increased 17 percent compared to the fourth quarter of 2017 and annual 2018 daily production volumes increased four percent compared to 2017. This was due to increased production from the Leduc-Woodbend area following drilling and completions activity and the First Acquisition, and partially offset by the Provost Disposition. Altura drilled eight ERH wells during its summer 2018 drilling program, commissioned a new multi-well battery and brought seven wells on production over July, August and September. However, in mid-November Altura voluntarily curtailed production volumes in response to weak oil prices caused by wide Canadian oil differentials. December 2018 production volumes were curtailed to 675 Boe per day. The Canadian oil differentials narrowed significantly in January 2019 and Altura brought the curtailed production back on line.

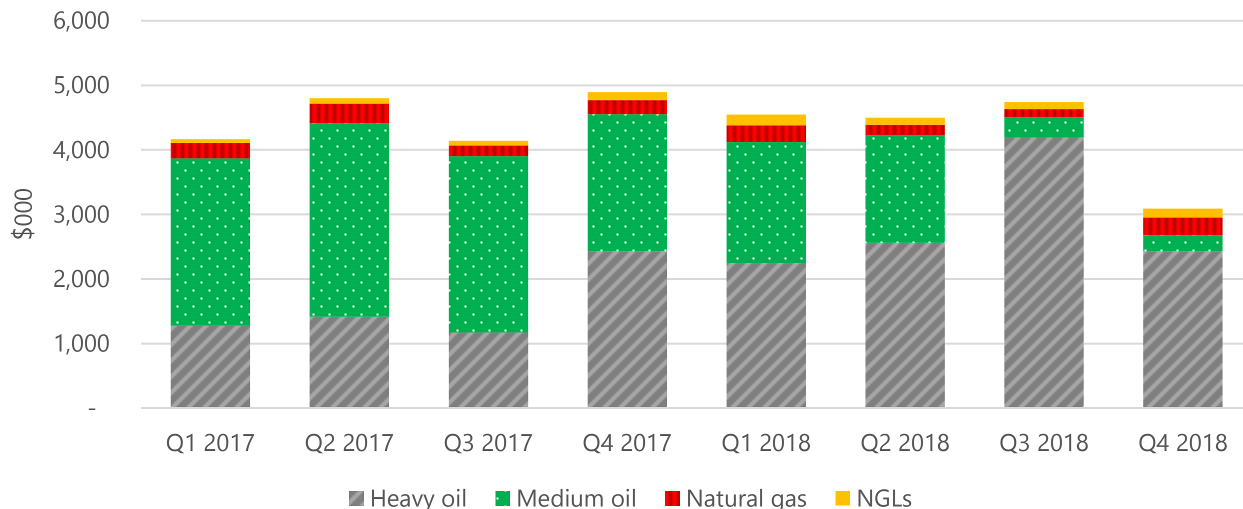




Petroleum and Natural Gas Sales

	Three months ended December 31			Year ended December 31		
($000)	**2018**	2017	% Change	**2018**	2017	% Change
Heavy oil	**2,429**	2,431	-	**11,425**	6,290	82
Medium oil	**250**	2,123	(88)	**4,081**	10,449	(61)
Natural gas	**272**	214	27	**816**	923	(12)
Natural gas liquids	**141**	125	13	**525**	339	55
Petroleum and natural gas sales	**3,062**	4,893	(37)	**16,847**	18,001	(6)

Petroleum and natural gas sales for the fourth quarter of 2018 decreased 37 percent to $3,062,000 compared to $4,893,000 in the fourth quarter of 2017. The quarter-over-quarter decrease of $1,831,000 consists of $2,282,000 attributed to lower realized commodity prices, partially offset by $451,000 attributed to increased production volumes.



For 2018, petroleum and natural gas sales decreased six percent to $16,847,000 compared to $18,001,000 in 2017. The decrease of $1,154,000 consists of $701,000 attributed to lower commodity prices, and $453,000 attributed to lower medium oil production volumes, partially offset by increased heavy oil and natural gas production volumes.

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

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

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

	Three months ended December 31			**Year ended December 31**		
	2018	2017	% Change	**2018**	2017	% Change
Average Benchmark Prices						
WTI crude oil (US$/Bbl)[(1)]	**58.81**	55.40	6	**64.77**	50.91	27
WCS differential (US$/Bbl) [(2)]	**(39.43)**	(12.27)	221	**(26.31)**	(15.55)	69
US$/Cdn$ exchange rate	**0.756**	0.786	(4)	**0.771**	0.770	-
WCS (Cdn$/Bbl)	**25.62**	54.87	(53)	**49.85**	50.53	(1)
AECO daily spot ($/GJ)	**1.48**	1.60	(8)	**1.42**	2.04	(30)
Average Realized Prices						
Heavy oil ($/Bbl)	**25.28**	48.54	(48)	**43.46**	46.75	(7)
Medium oil ($/Bbl)	**51.44**	55.73	(8)	**57.94**	51.41	13
Natural gas ($/Mcf)	**1.74**	1.81	(4)	**1.63**	2.33	(30)
Natural gas liquids ($/Bbl)	**40.19**	45.46	(12)	**47.57**	42.79	11
Average realized price ($/Boe)	**23.57**	44.22	(47)	**39.40**	43.72	(10)

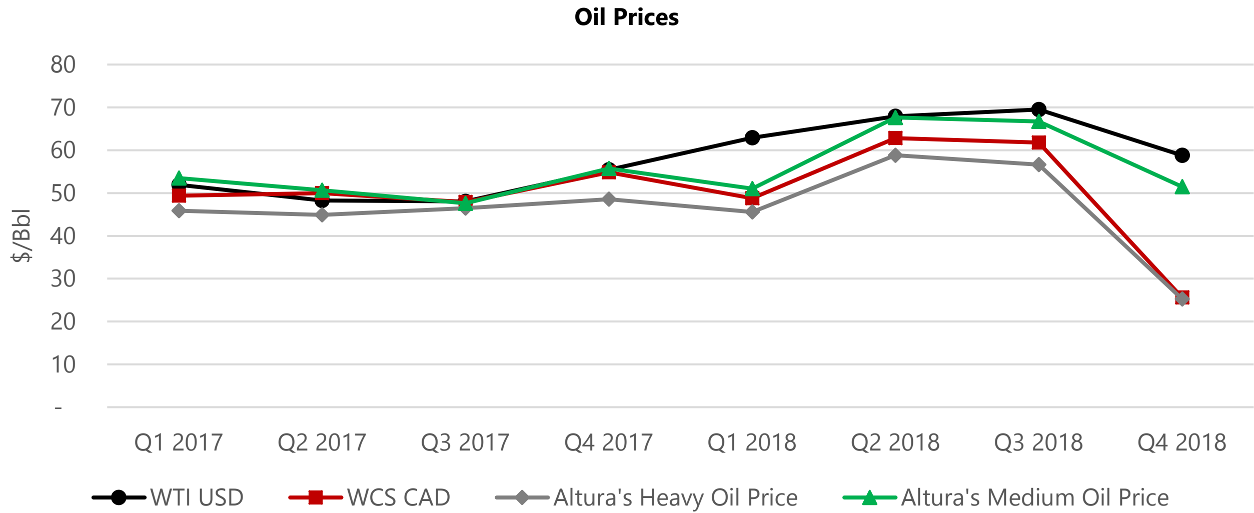
(1) WTI represents posting price of West Texas Intermediate crude oil.

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

Comparing the fourth quarter of 2018 with the fourth of 2017, WTI increased 6 percent, the realized medium oil price decreased eight percent, and Altura's realized heavy oil price decreased 48 percent. The impact of improved WTI prices was offset by the widening differential between WTI and WCS to an average discount of US$39.43 per barrel compared to US$12.27 per barrel in the fourth quarter of 2017. WCS differentials widened in the fourth quarter due to a lack of pipeline access to international oil markets, temporary seasonal maintenance of oil refineries in the United States, the slowly growing crude-by-rail option to transport crude to the United States, full Canadian oil storage and the growth of Canadian oil production.

In 2018, Altura's realized heavy oil price decreased by seven percent to $43.46 per barrel compared to 2017, while WTI increased 27 percent over the same period. The diverging realized price compared to WTI is a result of the widening differential between WTI and WCS due to the reasons discussed above. The average discount for WCS was US$26.31 per barrel for 2018 compared to US$15.55 per barrel in 2017.

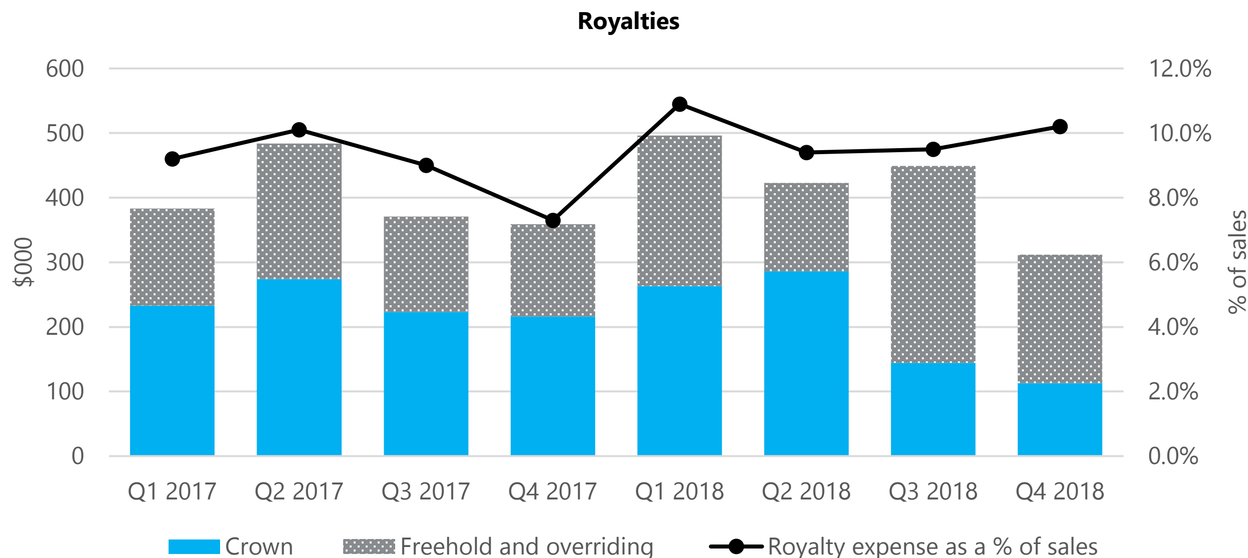
For the three months and year ended December 31, 2018, Altura's realized natural gas price decreased by four percent and 30 percent compared to the same periods in the prior year due to the decline in the AECO daily spot price, which was impacted by concerns of oversupply, ongoing pipeline maintenance, and infrastructure constraints in western Canada.



Royalties

($000, except % and per Boe)	Three months ended December 31 **2018**	2017	% Change	Year ended December 31 **2018**	2017	% Change
Crown royalties	**113**	216	(48)	**806**	946	(15)
Freehold and overriding royalties	**199**	143	39	**874**	651	34
Royalty expense	**312**	359	(13)	**1,680**	1,597	5
Royalty expense as a % of sales	**10.2%**	7.3%	40	**10.0%**	8.9%	12
Royalty expense per Boe	**2.40**	3.24	(26)	**3.93**	3.88	1

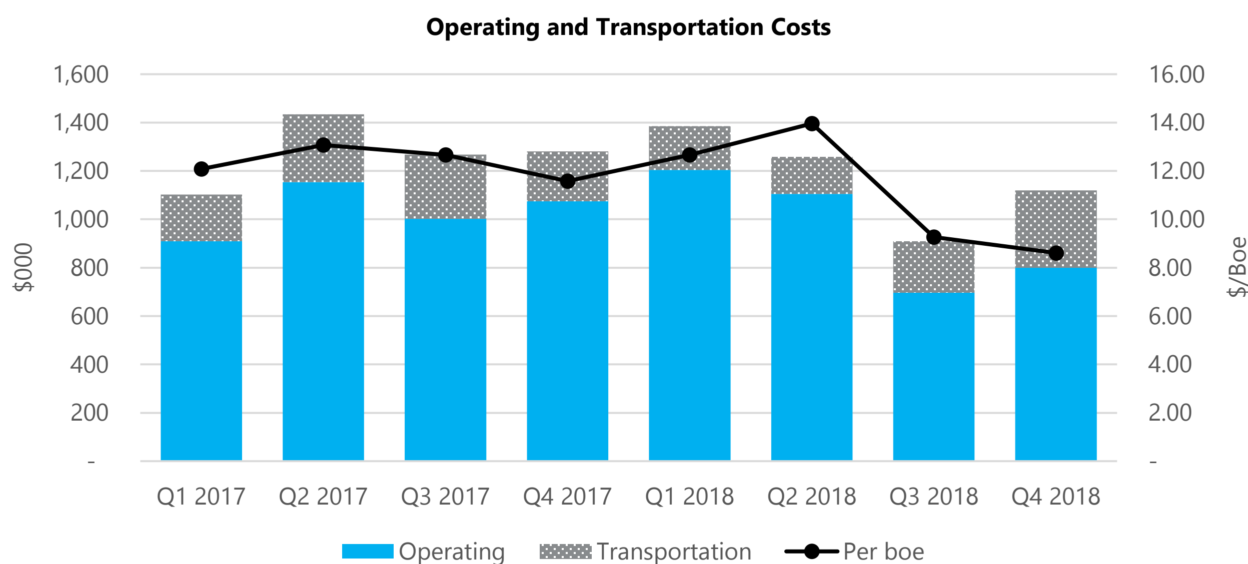
Total royalties for the three months and year ended December 31, 2018 were $312,000 and $1,680,000 ($359,000 and $1,597,000 for the same periods in 2017), respectively. Total royalties as a percentage of petroleum and natural gas sales increased from 7.3 percent ($3.24 per Boe) in the fourth quarter of 2017 to 10.2 percent ($2.40 per Boe) in the fourth quarter of 2018. For the year ended December 31, 2018, total royalties represented 10.0 percent of petroleum and natural gas sales ($3.93 per Boe) as compared to 8.9 percent ($3.88 per Boe) in 2017. The increase in royalty expense as a percentage of sales for the three months and year ended December 31, 2018, is due to increased production on freehold lands that have higher average royalty rates than Crown lands.



Operating and Transportation Costs

($000, except per Boe)	Three months ended December 31 2018	2017	% Change	Year ended December 31 2018	2017	% Change
Operating	**800**	1,075	(26)	**3,805**	4,141	(8)
Transportation	**319**	206	55	**866**	945	(8)
Operating and transportation	**1,119**	1,281	(13)	**4,671**	5,086	(8)
Operating per Boe	**6.16**	9.72	(37)	**8.90**	10.06	(12)
Transportation per Boe	**2.45**	1.86	32	**2.03**	2.29	(11)
Operating and transportation per Boe	**8.61**	11.58	(26)	**10.93**	12.35	(11)

Operating and transportation costs decreased by $162,000 in the fourth quarter of 2018 to $1,119,000 as compared to the fourth quarter of 2017. On a per unit basis, operating and transportation costs decreased $2.97 to $8.61 per Boe in the fourth quarter of 2018 compared to $11.58 per Boe in the fourth quarter of 2017. For the year ended December 31, 2018, operating and transportation costs decreased by $415,000 to $4,671,000 compared to 2017. On a per unit basis, operating and transportation costs decreased by $1.42 to $10.93 per Boe compared to 2017. The decreases on an absolute and per unit basis are mainly due to Altura's growth of lower cost production at Leduc-Woodbend, completion of the Leduc-Woodbend multi-well battery that enabled Altura to treat emulsion and dispose water on site and the sale of the Provost assets that had higher average operating costs.

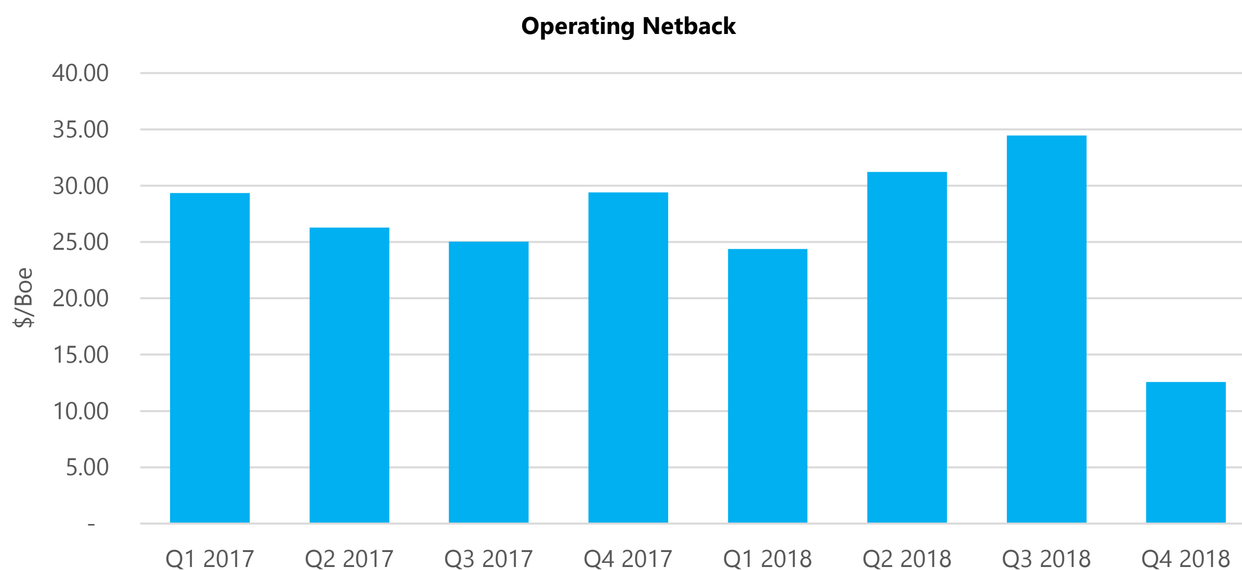


Operating Netback

($/Boe)	Three months ended December 31 2018	2017	% Change	Year ended December 31 2018	2017	% Change
Average realized sales price	**23.57**	44.22	(47)	**39.40**	43.72	(10)
Royalties	**(2.40)**	(3.24)	(26)	**(3.93)**	(3.88)	1
Operating	**(6.16)**	(9.72)	(37)	**(8.90)**	(10.06)	(12)
Transportation	**(2.45)**	(1.86)	32	**(2.03)**	(2.29)	(11)
Operating netback[(1)]	**12.56**	29.40	(57)	**24.54**	27.49	(11)

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

Altura's operating netback was $12.56 per Boe in the fourth quarter of 2018 compared to $29.40 per Boe in the fourth quarter of 2017. The decrease is a result of lower average realized sales prices, partially offset by decreased per unit royalties and operating costs. For the year ended December 31, 2018, Altura's operating netback was $24.54 per Boe compared to $27.49 per Boe in 2017. The decrease is a result of lower average realized sales prices, partially offset by decreased per unit operating and transportation costs.



Altura's operating netback decreased by $21.90 per Boe to $12.56 per Boe in the fourth quarter of 2018 from $34.46 per Boe in the third quarter of 2018 due to a sharp decline in the average realized sales price from wide Canadian oil differentials, as discussed in the Economic Environment section of this MD&A.

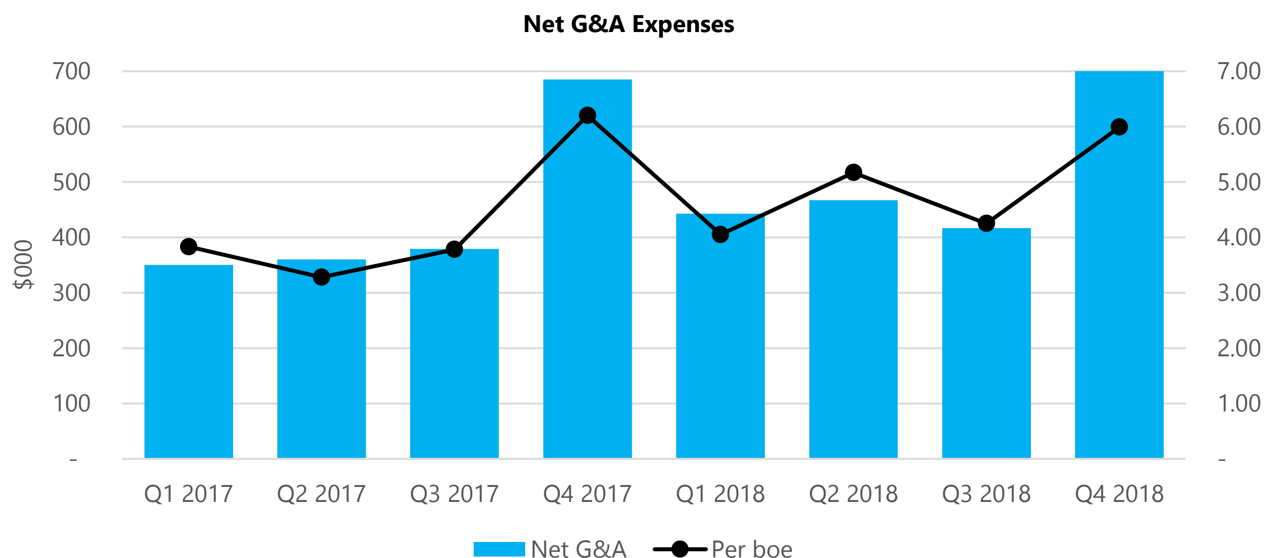
General and Administrative ("G&A") Expenses

($000, except per Boe)	Three months ended December 31 2018	2017	% Change	Year ended December 31 2018	2017	% Change
Gross G&A	**925**	803	15	**2,664**	2,263	18
Capitalized G&A and overhead recoveries	**(148)**	(118)	25	**(560)**	(489)	15
Net G&A expenses	**777**	685	13	**2,104**	1,774	19
Net G&A per Boe	**5.99**	6.20	(3)	**4.92**	4.31	14

Net G&A expenses totaled $777,000 and $2,104,000 for the three months and year ended December 31, 2018, respectively, compared to $685,000 and $1,774,000 for the same periods in 2017. The increases are primarily related to increased salaries and benefits, professional services, office rent, and computer services and software associated with the Corporation's growth.

Net G&A expenses increased 14 percent to $4.92 per Boe for the year ended December 31, 2018 compared to 2017 due to the increased costs described above.

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



The increased G&A observed in the fourth quarter of 2017 and the fourth quarter of 2018 primarily relate to additional costs associated with performance-based compensation.

Exploration Expense

($000, except per Boe)	Three months ended December 31 2018	2017	% Change	Year ended December 31 2018	2017	% Change
Exploration expense	**5**	-	-	**25**	-	-
Exploration expense per Boe	**0.04**	-	-	**0.06**	-	-

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in the three months and year ended December 31, 2018, relate to geophysical consulting incurred by the Corporation to evaluate Crown land sales and freehold lands available for leasing.

Interest and Financing Expenses

	Three months ended December 31			Year ended December 31		
($000, except per Boe)	**2018**	2017	% Change	**2018**	2017	% Change
Interest and financing expenses	**23**	42	(45)	**160**	84	90
Interest and financing expenses per Boe	**0.18**	0.38	(53)	**0.37**	0.20	85

Interest and financing expenses totaled $23,000 and $160,000 in the three months and year ended December 31, 2018, respectively, compared to $42,000 and $84,000 in the same periods of 2017. The decrease in the fourth quarter is due to lower average bank debt compared to the fourth quarter of 2017. The increase in the year ended December 31, 2018 is due to higher average bank debt in the first half of 2018 and higher interest rates associated with the increases in the prime lending rate. Altura's average interest rate for the year ended December 31, 2018 was 5.1 percent as compared to 4.4 percent in 2017.

Interest Income

	Three months ended December 31			Year ended December 31		
($000, except per Boe)	**2018**	2017	% Change	**2018**	2017	% Change
Interest income	**-**	-	-	**49**	18	172
Interest income per Boe	**-**	-	-	**0.12**	0.04	200

Interest income was $49,000 in the year ended December 31, 2018, compared to $18,000 in 2017. The interest income in 2018 relates to cash from the Provost Disposition that was invested in an interest-bearing account with Altura's lender.

Share-Based Compensation

	Three months ended December 31			Year ended December 31		
($000)	**2018**	2017	% Change	**2018**	2017	% Change
Share-based compensation	**218**	264	(17)	**1,009**	1,086	(7)
Capitalized share-based compensation	**(39)**	(53)	(26)	**(223)**	(228)	(2)
Share-based compensation expense	**179**	211	(15)	**786**	858	(8)

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation estimates the fair-value of the incentive award based on a Black Scholes model for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. Share-based compensation, net of capitalized amounts, totaled $179,000 and $786,000 in the three months and year ended December 31, 2018, respectively, compared to $211,000 and $858,000 in the same periods of 2017. The decrease in the three months and year ended December 31, 2018, as compared to the same periods of 2017, reflects a decrease in performance warrant expense due to one-third of the total performance warrants being fully expensed in July 2018.

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

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

	Three months ended December 31			Year ended December 31		
($000, except per Boe)	**2018**	2017	% Change	**2018**	2017	% Change
DD&A	**1,918**	1,796	7	**6,906**	7,206	(4)
DD&A per Boe	**14.77**	16.23	(9)	**16.15**	17.50	(8)

Altura uses proved and probable reserves to calculate DD&A expense. For the fourth quarter of 2018, DD&A increased seven percent to $1,918,000 compared to $1,796,000 in the fourth quarter of 2017. On a per unit basis, DD&A decreased nine percent to $14.77 per Boe compared to $16.23 per Boe in the fourth quarter of 2017. For the year ended December 31, 2018, DD&A decreased four percent to $6,906,000 compared to $7,206,000 in 2017. On a per unit basis, DD&A was $16.15 per Boe

compared to $17.50 per Boe in 2017. The decreased DD&A per Boe in the fourth quarter and year ended December 31, 2018 reflects 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, 2018, Altura evaluated its developed and producing ("D&P") assets on a cash generating unit basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded on Altura's D&P assets for the three months and year ended December 31, 2018 (2017 - $1,514,000).

Transaction Costs on Acquisition

	Three months ended December 31			**Year ended December 31**		
($000, except per Boe)	**2018**	2017	% Change	**2018**	2017	% Change
Transaction costs on acquisition	**-**	-	-	**14**	-	-

Transaction costs on acquisitions incurred in the year ended December 31, 2018 relate to legal fees and environmental consulting associated with the two asset acquisitions.

Gain on Disposition of Assets

	Three months ended December 31			**Year ended December 31**		
($000)	**2018**	2017	% Change	**2018**	2017	% Change
Gain on disposition of assets	**4**	-	-	**2,978**	143	>500

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

On May 31, 2018, the Corporation closed the Provost Disposition of Altura's crude oil and natural gas assets in east central Alberta and Saskatchewan for $27,265,000 of cash, net of customary post-closing adjustments and transaction costs of $411,000. Altura adjusted the gain by $4,000 in the fourth quarter of 2018 from changes in operating income (revenues less royalties, operating and transportation expenses) in the April 1—May 31, 2018 interim period. Altura recorded a gain of $2,839,000 on the disposition for the year ended December 31, 2018.

In April 2017, the Corporation divested of undeveloped land for cash of $750,000. Altura recorded a gain of $143,000 on the disposition for the year ended December 31, 2017.

Deferred Taxes

The Corporation recognized a deferred tax recovery of $309,000 in the fourth quarter of 2018, compared to nil in the fourth quarter of 2017 due to a loss before taxes in the fourth quarter of 2018. For the year ended December 31, 2018, Altura recorded a deferred tax expense of $726,000 compared to nil in 2017. The increase is a result of income before taxes in 2018 compared to a loss before taxes in 2017 and the elimination of the Corporation's unrecognized deferred tax asset associated with the Provost Disposition.

Estimated tax pools at December 31, 2018 are as follows:

	($000)
Canadian development expenses	17,491
Canadian exploration expenses	2,984
Canadian oil and gas property expenses	-
Non-capital losses	11,981
Capital losses	173
Undepreciated capital cost	11,487
Share issue costs	51
	44,167

Altura has non-capital losses of $12.0 million at December 31, 2018 that expire between 2025 and 2039.

Net Income (Loss) and Adjusted Funds Flow

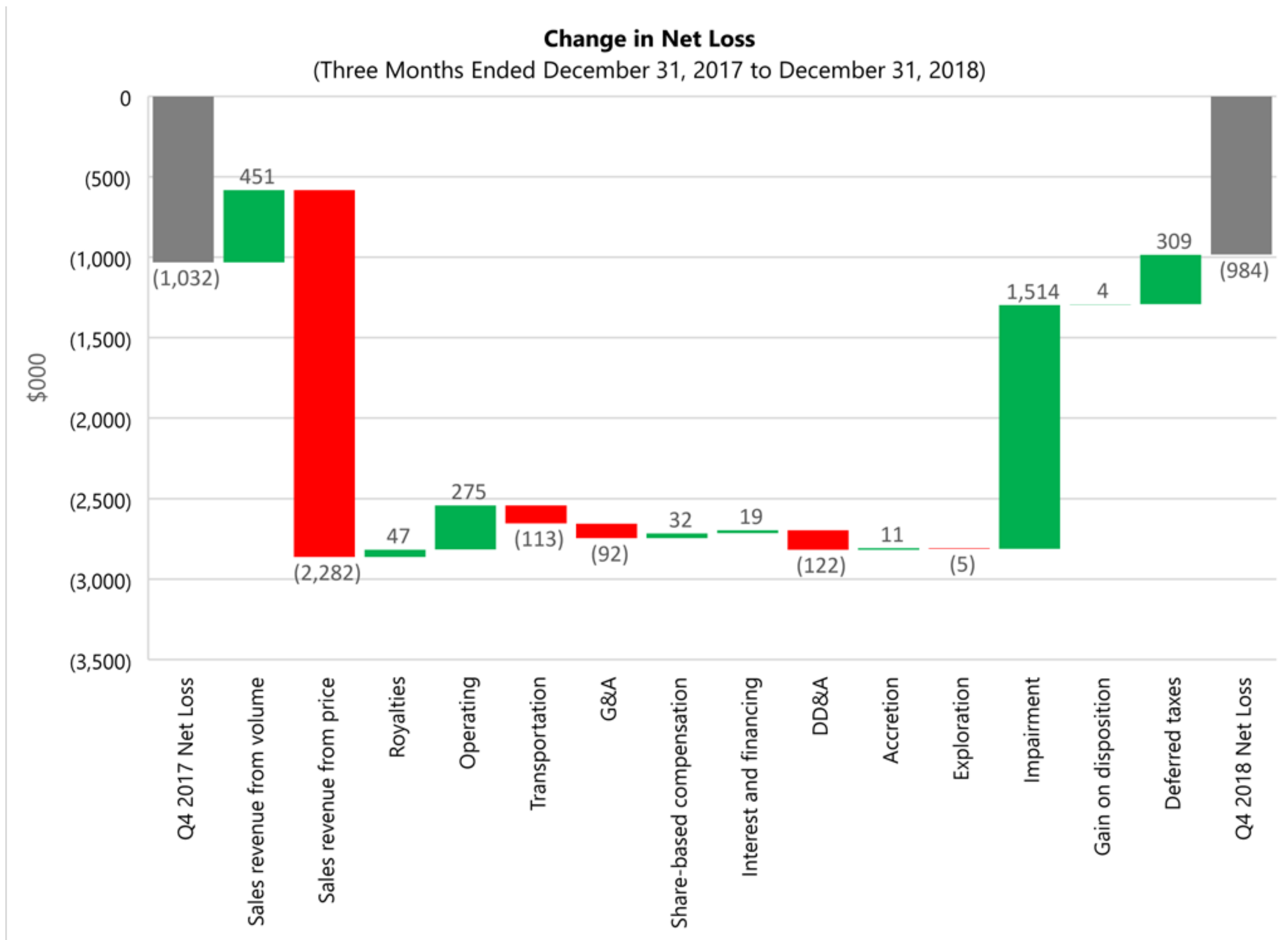
	Three months ended December 31			**Year ended December 31**		
($000, except per share amounts and per Boe)	**2018**	2017	% Change	**2018**	2017	% Change
Net income (loss)	**(984)**	(1,032)	(5)	**2,693**	(103)	(>500)
Per share – diluted[1]	**(0.01)**	(0.01)	-	**0.02**	-	-
Adjusted funds flow[2]	**826**	2,526	(67)	**8,256**	9,478	(13)
Per share – diluted[2]	**0.01**	0.02	(50)	**0.07**	0.09	(22)
Adjusted funds flow per Boe[2]	**6.35**	22.82	(72)	**19.31**	23.02	(16)

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

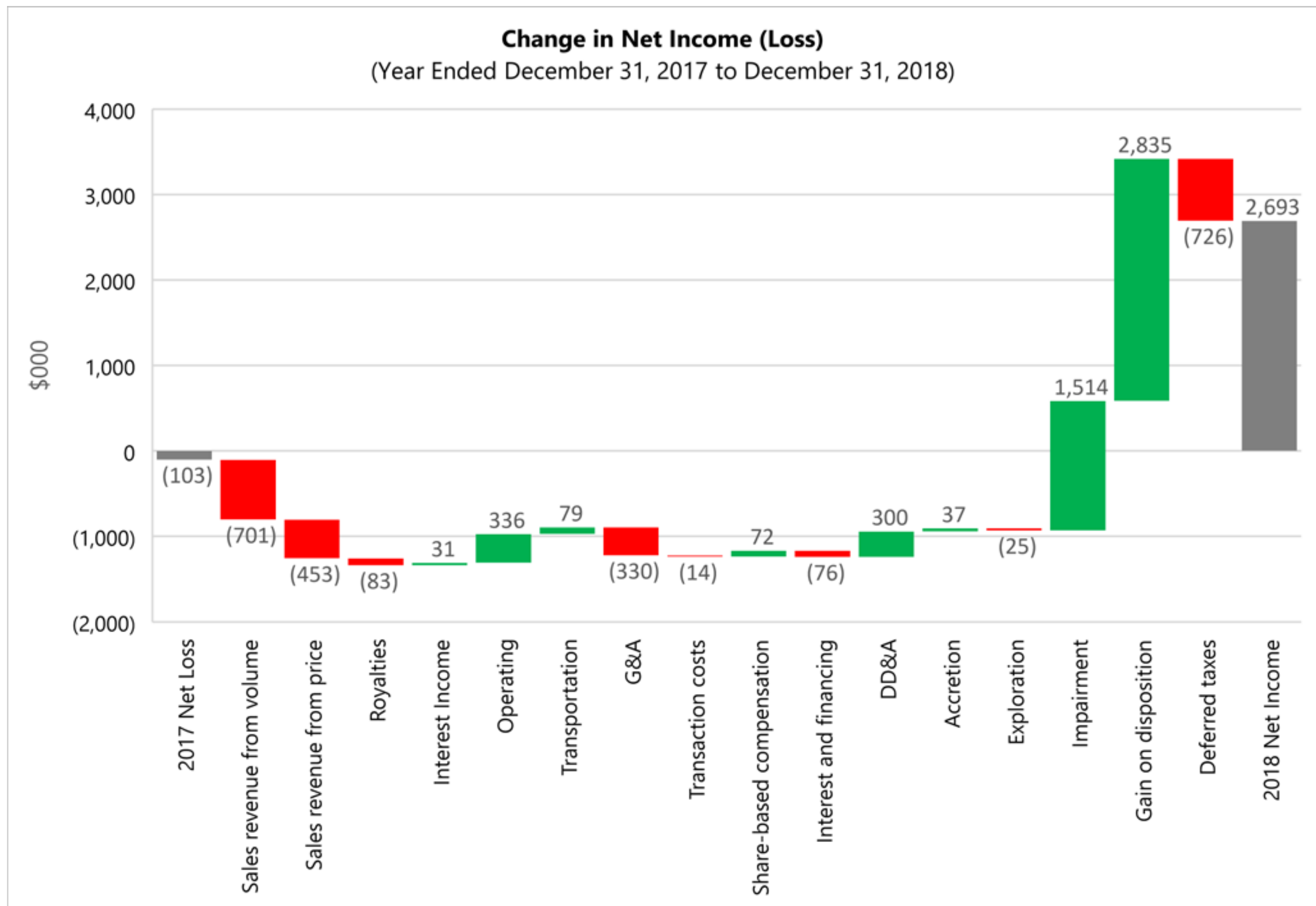
(2) Adjusted funds flow is a non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Refer to the heading entitled "Non-GAAP Measures" included in the "Advisories" section at the end of this MD&A.

Net Income (Loss)

In the fourth quarter of 2018, the net loss decreased by $48,000 to $984,000 compared to $1,032,000 in the fourth quarter of 2017. The decreased loss primarily reflects increased sales revenue from production volumes, lower operating costs, no impairment and a deferred tax recovery, partially offset by a significant decrease in sales revenue from lower commodity prices.

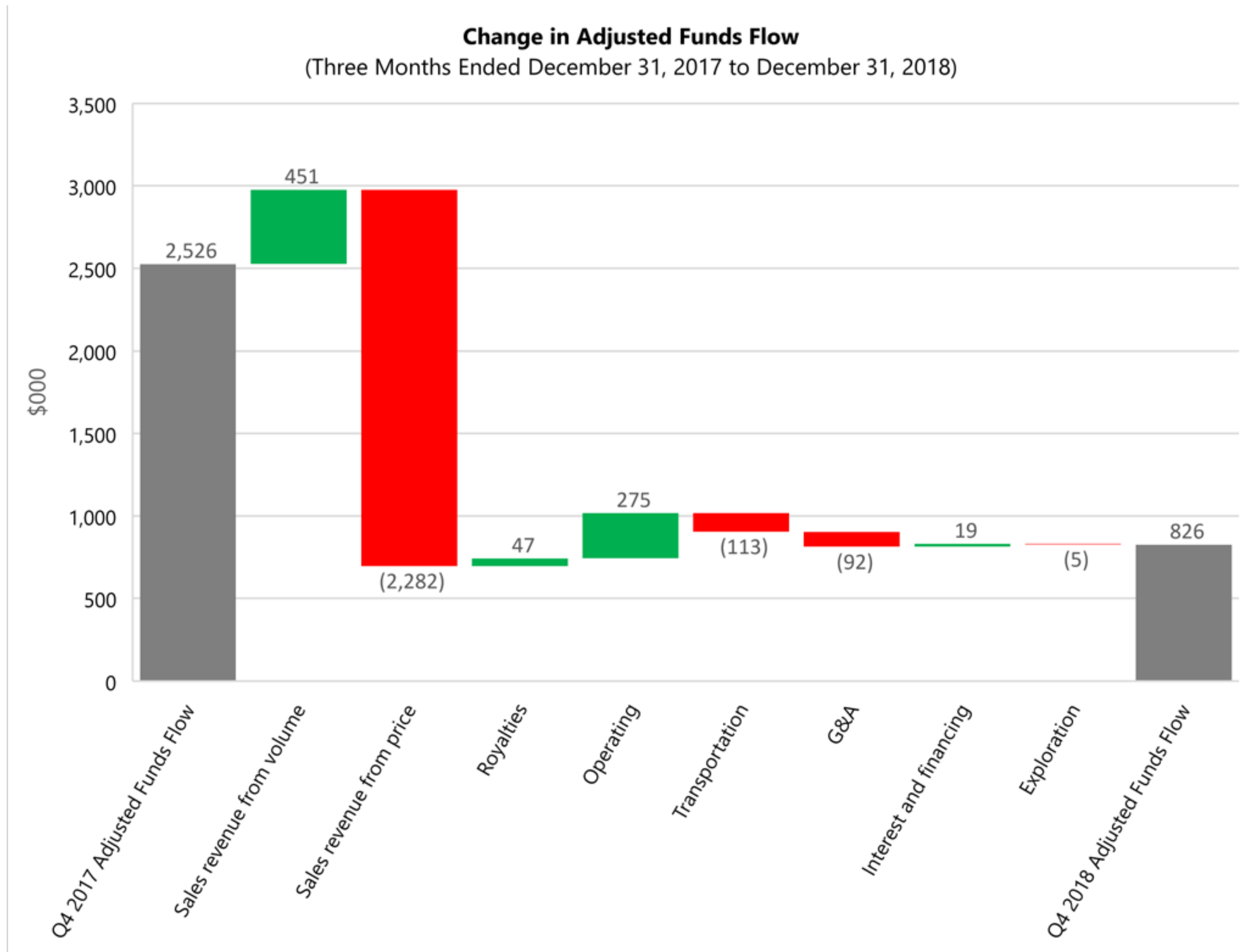


Net income for the year ended December 31, 2018 was $2,693,000 compared to a net loss of $103,000 in 2017. The increase primarily reflects lower operating, DD&A and impairment expenses, and an increased gain on disposition. Lower medium oil production volumes, lower commodity prices, higher G&A, and deferred tax expenses partially offset the increase.

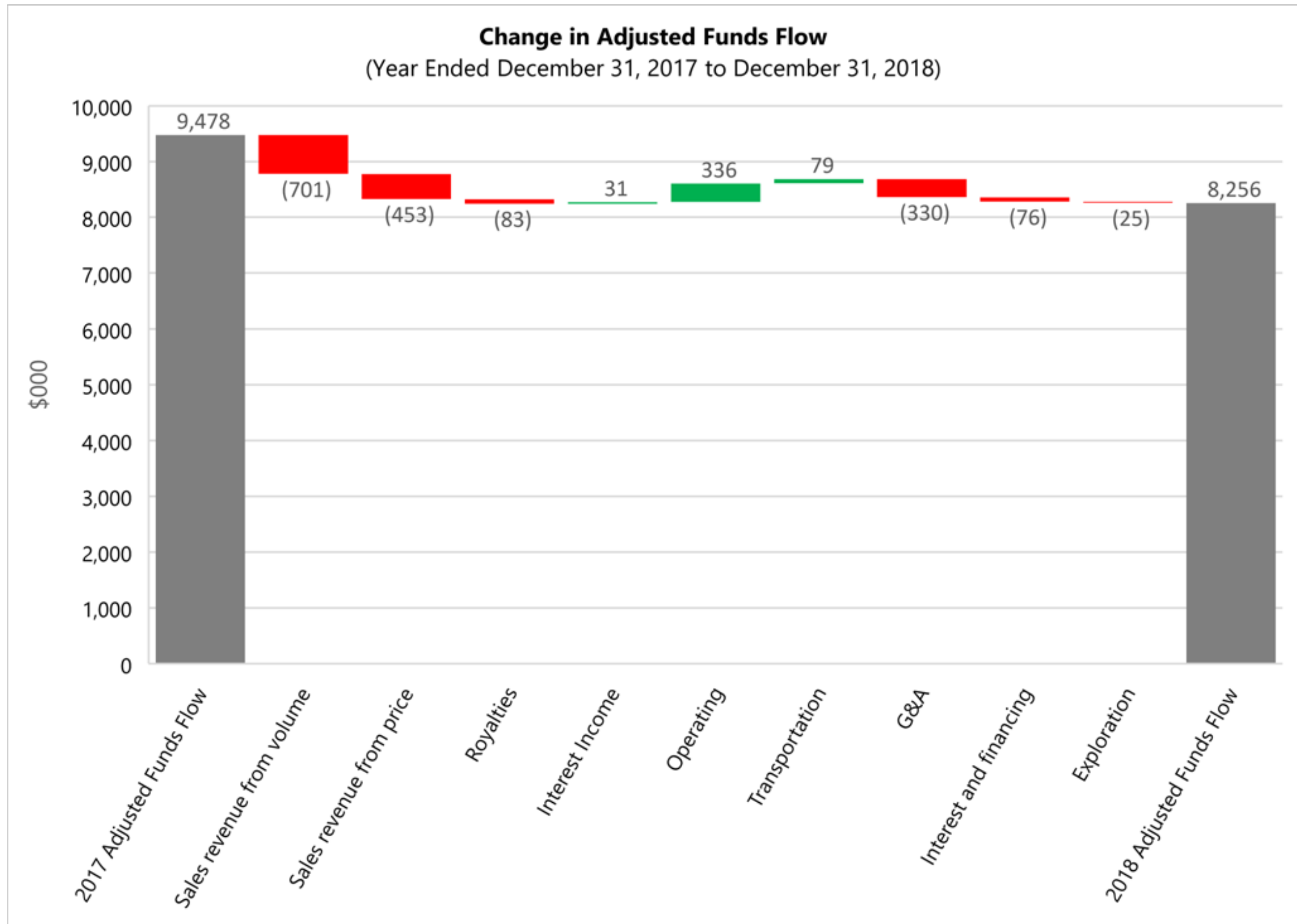


Adjusted Funds Flow

In the fourth quarter of 2018, adjusted funds flow decreased by $1,700,000 to $826,000 compared to $2,526,000 in the same period of 2017. The decrease primarily reflects decreased revenue from lower realized oil prices coupled with higher transportation costs and G&A, partially offset by increased production volumes and lower operating costs.



In 2018, adjusted funds flow decreased by $1,222,000 to $8,256,000 compared to 9,478,000 in 2017. The decrease primarily reflects decreased revenue from lower realized oil prices and lower medium oil production from the Provost Disposition, coupled with increased royalties and G&A. Lower operating and transportation costs partially offset the decrease.



Capital Expenditures

($000)	Three months ended December 31 2018	2017	% Change	Year ended December 31 2018	2017	% Change
Geological and geophysical	**17**	6	183	**38**	138	(72)
Land	**454**	119	282	**720**	1,844	(61)
Drilling and completions	**1,221**	1,685	(28)	**23,481**	12,751	84
Workovers	**56**	281	(80)	**826**	1,343	(38)
Equipping and tie-in	**23**	262	(91)	**1,366**	1,958	(30)
Facilities and pipelines	**1,146**	618	85	**6,384**	3,798	68
Other	**133**	112	19	**641**	470	36
Capital expenditures	**3,050**	3,083	(1)	**33,456**	22,302	50
Property acquisitions	**989**	-	-	**3,597**	-	-
Property dispositions	**(3)**	(355)	(99)	**(27,686)**	(1,105)	>500
Total capital expenditures, acquisitions and dispositions	**4,036**	2,728	48	**9,367**	21,197	(56)

In the fourth quarter of 2018, Altura invested $3.1 million on capital expenditures in Leduc-Woodbend that included one well completion, facility work at the previously commissioned multi-well battery to optimize fluid processing and initial costs related to an electrification project at the multi-well battery and associated pad sites that will be completed in the first quarter of 2019.

In 2018, Altura invested $33.5 million on capital expenditures. Drilling and completion projects included nine ERH wells at Leduc-Woodbend, and one well at Macklin. The Corporation invested in key infrastructure at Leduc-Woodbend including the construction of a multi-well battery and a natural gas gathering pipeline that connects Altura's northern area production to a second third party gas plant.

The Corporation closed two separate property acquisitions in 2018, acquiring 3.0 net sections of highly prospective lands in the Upper Mannville oil pool at Leduc-Woodbend and a 60 percent working interest in a producing oil unit in the Leduc-Woodbend area, adding net production of approximately 120 Boe per day (90 percent oil & liquids) of low decline, Glauconite oil (33° API) production for aggregate cash consideration of $3,597,000.

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets in east central Alberta and Saskatchewan for $27,265,000 of cash, net of customary post-closing adjustments and transaction costs of $411,000.

Decommissioning Liability

At December 31, 2018, Altura's decommissioning liability was $5.8 million (December 31, 2017 - $6.6 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors (2.0 percent) used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 2.2 percent (December 31, 2017 – 2.3 percent).

Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The change in liability is due to the two property acquisitions in 2018, new wells drilled in the year, a revision of estimates and accretion expense, partially offset by the Provost Disposition on May 31, 2018.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the fourth quarter and year ended December 31, 2018, accretion expense totaled $26,000 and $109,000 (2017 - $37,000 and $146,000), respectively.

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 7.5 at March 20, 2019. 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 a working capital deficit of $4.8 million at December 31, 2018, compared to a working capital deficit of $3.7 million at December 31, 2017. At December 31, 2018, the major components of Altura's current assets were accounts receivable (76 percent) to be received from its joint interest partners and oil and gas marketers in respect to December 2018 natural gas production. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectible. Current liabilities largely consist of trade and joint interest payables (36 percent) and accrued liabilities (25 percent) related to the Corporation's operations and bank debt (38 percent). The Corporation manages its working capital using a combination of its cash flow from operating activities and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash, if any, in a short-term interest-bearing account with its lender.

Credit Facility

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in December 2018, and the borrowing base was revised to $6.0 million from the previous $3.0 million borrowing base. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Corporation is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility may be added to current assets. As at December 31, 2018, the working capital ratio under the terms of the Credit Facility was calculated to be 1.3:1 (December 31, 2017 – 4.2:1). The next review date for the Credit Facility has been set for May 31, 2019.

As at December 31, 2018, $2.1 million (December 31, 2017 - $4.3 million) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for $160,000 (December 31, 2017 - $201,000).

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

Shareholders' Equity

At December 31, 2018 there were 108,920,973 common shares outstanding, 9,749,879 performance warrants outstanding and 8,390,000 stock options outstanding. The number of common shares and performance warrants remain unchanged from December 31, 2017.

At March 20, 2019 the number of common shares, performance warrants and stock options outstanding remain unchanged from December 31, 2018.

Liquidity

As at ($000)	December 31, 2018	December 31, 2017
Current assets	**854**	2,401
Current liabilities	**(5,674)**	(6,130)
Net debt[1]	**(4,820)**	(3,729)
Credit Facility capacity[2]	**5,840**	9,799
Available funding	**1,020**	6,070

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

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

At December 31, 2018, Altura had $1,020,000 available funding consisting of the Credit Facility, partially offset by the working capital deficit.

Capital Resources

The Corporation provided its 2019 capital expenditure budget of $15 million on March 5, 2019. The budget is weighted to the second half of 2019 and includes drilling four ERH wells at Leduc-Woodbend. Additionally, Altura plans to implement a waterflood pilot project at Leduc-Woodbend which includes drilling on reduced inter-well spacing. Altura expects to have adequate liquidity to fund the budget through a combination of cash flow from operating activities and available funding from its Credit Facility.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

	Payments Due by Year						
($000)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Office lease	42	167	170	182	190	143	894
Total contractual obligations and commitments	**42**	**167**	**170**	**182**	**190**	**143**	**894**

SUMMARY OF QUARTERLY INFORMATION

	2018				2017			
Quarters Ended	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
OPERATING								
Average daily production								
Heavy oil (Bbls/d)	**1,044**	805	478	547	544	274	346	309
Medium oil (Bbls/d)	**46**	51	271	408	414	624	652	539
Natural gas (Mcf/d)	**1,699**	1,128	1,309	1,336	1,286	1,045	1,098	909
NGLs (Bbls/d)	**38**	23	23	37	30	16	25	16
Total (Boe/d)	**1,412**	1,067	991	1,215	1,202	1,088	1,205	1,015
Average realized sales price								
Heavy oil ($/Bbl)	**25.28**	56.59	58.83	45.58	48.54	46.50	44.90	45.86
Medium oil ($/Bbl)	**51.44**	66.74	67.64	51.06	55.73	47.61	50.64	53.47
Natural gas ($/Mcf)	**1.74**	1.23	1.32	2.14	1.81	1.71	3.03	2.96
NGLs ($/Bbl)	**40.19**	51.30	51.68	50.44	45.46	49.54	36.44	40.56
Total ($/Boe)	**23.57**	48.29	49.87	41.58	44.22	41.38	43.77	45.62
($/Boe)								
Petroleum and natural gas sales	**23.57**	48.29	49.87	41.58	44.22	41.38	43.77	45.62
Royalty expenses	**(2.40)**	(4.57)	(4.69)	(4.54)	(3.24)	(3.70)	(4.41)	(4.20)
Operating costs	**(6.16)**	(7.09)	(12.26)	(11.01)	(9.72)	(10.01)	(10.52)	(9.96)
Transportation costs	**(2.45)**	(2.17)	(1.70)	(1.65)	(1.86)	(2.65)	(2.55)	(2.12)
Operating netback[1]	**12.56**	34.46	31.22	24.38	29.40	25.02	26.29	29.34
General and administrative	**(5.99)**	(4.25)	(5.17)	(4.05)	(6.20)	(3.78)	(3.28)	(3.83)
Exploration expense	**(0.04)**	(0.21)	-	-	-	-	-	-
Interest and financing expense	**(0.18)**	(0.03)	(0.88)	(0.51)	(0.38)	(0.06)	(0.27)	(0.07)
Interest income	**-**	0.34	0.18	-	-	-	0.03	0.16
Adjusted funds flow per Boe[1]	**6.35**	30.31	25.35	19.82	22.82	21.18	22.77	25.60
FINANCIAL ($000, except per share)								
Petroleum and natural gas sales	**3,062**	4,741	4,497	4,547	4,893	4,143	4,800	4,165
Adjusted funds flow[1]	**826**	2,977	2,285	2,168	2,526	2,119	2,496	2,337
Per share – diluted[1]	**0.01**	0.03	0.02	0.02	0.02	0.02	0.02	0.02
Cash flow from operating activities	**4,200**	831	2,313	2,443	1,940	2,545	2,269	2,794
Per share – diluted	**0.04**	0.01	0.02	0.02	0.02	0.02	0.02	0.03
Net income (loss)	**(984)**	750	2,750	177	(1,032)	322	594	13
Per share – diluted[2]	**(0.01)**	0.01	0.02	-	(0.01)	-	0.01	-
($000)								
Capital expenditures	**3,050**	16,717	6,344	7,345	3,083	6,439	3,828	8,952
Property acquisitions/(dispositions)	**986**	2,637	(27,712)	-	(355)	-	(750)	-
Total assets	**54,023**	54,793	49,957	55,973	50,807	49,848	46,890	49,083
Net debt (working capital surplus)[1]	**4,820**	1,887	(14,761)	8,561	3,729	2,881	(1,156)	(2,436)
Shareholders' equity	**41,867**	42,633	41,643	38,616	38,165	38,933	38,336	37,468
Common shares outstanding (000)								
Weighted average for the period - basic[2]	**108,921**	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted[2]	**110,260**	112,281	110,546	109,133	109,570	108,922	109,082	109,289
Shares outstanding, end of period	**108,921**	108,921	108,921	108,921	108,921	108,921	108,921	108,921

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

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

Quarter over quarter changes in revenue from the first quarter of 2017 are the result of changes in oil and gas volumes sold as well as changes in Altura's average realized price. The decline in production in the third quarter of 2017 is a result of natural production declines with no new wells being added in the quarter. The decline in production in the second quarter of 2018 is a result of the disposition of assets in east central Alberta and Saskatchewan on May 31, 2018. Production volumes increased

in the third and fourth quarters of 2018 with seven new Leduc-Woodbend wells being brought on production in the second half of 2018. Realized crude oil prices declined sharply in the fourth quarter of 2018 due to wide Canadian oil differentials.

Capital expenditures in 2017 included drilling eight wells, land acquisitions and pipeline construction and facility upgrades. Capital expenditures in the first quarter of 2018 included drilling two wells, pipeline construction costs and facility equipment purchases. In the second and third quarters of 2018, Altura drilled eight wells, completed seven wells and constructed a multi-well battery at Leduc-Woodbend. In the fourth quarter of 2018, Altura's capital investments included one well completion, facility work at the previously commissioned multi-well battery and initial costs related to an electrification project at the multi-well battery and associated pad sites.

Altura recorded net income in the first three quarters of 2017 due to increased petroleum and natural gas sales and lower relative cash and non-cash costs. In the fourth quarter of 2017, Altura recorded an impairment expense for $1.5 million resulting in a loss. In the second quarter of 2018, Altura recorded net income of $2.8 million mainly due to a gain on disposition of assets, partially offset by a deferred tax expense. In the third quarter of 2018, the Corporation recorded net income of $0.8 million and in the fourth quarter of 2018 Altura recorded a net loss of $1.0 million, due mainly to the decline in realized oil prices.

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

RISK FACTORS & RISK MANAGEMENT

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

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

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

CHANGES IN ACCOUNTING POLICIES

IFRS 15

The Corporation adopted IFRS 15, "Revenue from Contracts with Customers" on January 1, 2018. Altura used the modified retrospective adoption approach to adopt the new standard. The 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. The Corporation reviewed its revenue contracts with customers using the IFRS 15 five-step model. The adoption of IFRS 15 did not result in any adjustments to opening retained earnings and did not impact the Corporation's net income (loss) and financial position for the year ended December 31, 2017.

IFRS 9

The Corporation retrospectively adopted IFRS 9, "Financial Instruments" on January 1, 2018. There were no adjustments to opening retained earnings and no adjustments to the amounts recognized in Altura's Financial Statements for the year ended December 31, 2017. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

ADVISORIES

Non-GAAP Measures

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

Adjusted Funds Flow

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

Altura reports adjusted funds flow in total, on a per share basis and on a per Boe basis. The Corporation's adjusted funds flow is disclosed in the "Net Income (Loss) and Adjusted Funds Flow" section of this MD&A on page 18. The following schedule sets out the reconciliation of net income (loss) to adjusted funds flow and cash flow from operating activities for the reporting periods and the comparable prior periods:

	Three months ended December 31		**Year ended December 31**	
($000)	**2018**	2017	**2018**	2017
Net income (loss)	**(984)**	(1,032)	**2,693**	(103)
Adjusted for the following non-cash items				
Deferred tax expense	**(309)**	-	**726**	-
Depletion, depreciation and amortization	**1,918**	1,796	**6,906**	7,206
Accretion of decommissioning liability	**26**	37	**109**	146
Share-based compensation	**179**	211	**786**	858
Impairment	**-**	1,514	**-**	1,514
Gain on disposition of assets	**(4)**	-	**(2,978)**	(143)
Transaction costs on acquisition	**-**	-	**14**	-
Adjusted funds flow	**826**	2,526	**8,256**	9,478
Decommissioning liabilities settled	**4**	(16)	**(17)**	(54)
Transaction costs on property acquisition	**-**	-	**(14)**	-
Transaction costs on property disposition	**-**	-	**(411)**	-
Changes in non-cash operating working capital	**3,370**	(570)	**1,973**	124
Cash flow from operating activities	**4,200**	1,940	**9,787**	9,548

Net Debt (Working Capital Surplus)

Management views net debt (working capital surplus) as a key industry benchmark and a measure to assess the Corporation's financial position and liquidity. Net debt is equivalent to current assets less current liabilities. Altura's net debt is disclosed in the "Liquidity" section of this MD&A on page 25.

Operating Netback

Altura calculates operating netback on a per boe basis as petroleum and natural gas sales less royalties, operating and transportation costs. Management feels that operating netback is a key industry benchmark and a measure of performance for Altura that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a per Boe basis assists management and investors with evaluating operating performance on a comparable basis. Altura's operating netback is disclosed in the "Operating Netback" section of this MD&A on page 14.

Oil and Gas Advisories

Reserves

McDaniel & Associates Consultants Ltd. is the Corporation's independent "qualified reserve evaluator" as defined in National Instrument 51-101. The McDaniel Report has an effective date of December 31, 2018 and a preparation date of March 4, 2019 and was prepared in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. The reserve evaluation was based on the average of the published price forecasts for McDaniel, GLJ Petroleum Consultants Ltd., and Sproule Associates Ltd. at January 1, 2019. The Reserves Committee of the Board and the Board of Directors of Altura have reviewed and approved the evaluation prepared by McDaniel.

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.

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.

Potential Drilling Opportunities

Potential drilling opportunities have specifically been identified by management as an estimation of Altura's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves data on prospective acreage and geologic formations. The drilling locations on which the Corporation will actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results and other factors. While certain of the potential drilling opportunities have been derisked by drilling existing wells in relative close proximity to such potential drilling opportunities, other potential drilling opportunities may be farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

Finding, Development and Acquisition Costs

Finding, development and acquisition costs or "FD&A costs" is a metric commonly used in the oil and natural gas industry. This metric does 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 this oil and gas metric for its own performance measurements and to provide shareholders with measures to compare Altura's performance over time, however, such measure is not a reliable indicator of Altura's future performance and future performance may not compare to the performance in previous periods. FD&A is 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.

Forward-looking Information

This MD&A and fourth quarter report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and fourth quarter report contains forward-looking information and statements pertaining to:

- forecasted 2019 capital spending; and
- forecasted 2019 production rate range.

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 budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes.

The forward-looking information and statements included in this MD&A and 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, 2018 and December 31, 2017 were prepared by management within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for the integrity of the consolidated financial statements.

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

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

/s/ David Burghardt
President and Chief Executive Officer

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

March 20, 2019
Calgary, Alberta

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altura Energy Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

/s/ "KPMG LLP"
Chartered Professional Accountants
Calgary, Canada
March 20, 2019

CONSOLIDATED BALANCE SHEETS

As at

($000)	**December 31, 2018**	December 31, 2017
ASSETS		
Current assets		
Accounts receivable (note 14)	**650**	2,297
Prepaid expenses and deposits	**204**	104
	854	2,401
Deposit	**-**	345
Exploration and evaluation (note 7)	**-**	4,517
Property and equipment (note 8)	**53,169**	43,544
Total assets	**54,023**	50,807
LIABILITIES		
Current liabilities		
Bank debt (note 9)	**2,144**	4,252
Accounts payable and accrued liabilities	**3,478**	1,812
Current portion of decommissioning liability (note 10)	**15**	66
Deferred lease obligation	**37**	-
	5,674	6,130
Decommissioning liability (note 10)	**5,756**	6,512
Deferred taxes (note 13)	**726**	-
Total liabilities	**12,156**	12,642
SHAREHOLDERS' EQUITY		
Share capital (note 11)	**37,712**	37,712
Performance warrants (note 11e)	**2,176**	1,605
Contributed surplus	**3,944**	3,506
Deficit	**(1,965)**	(4,658)
Total shareholders' equity	**41,867**	38,165
Total liabilities and shareholders' equity	**54,023**	50,807

Commitments and contingencies (note 17)

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Robert Maitland
Director

/s/ John McAleer
Director

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

($000, except per share amounts)	**2018**	2017
REVENUE		
Petroleum and natural gas sales (note 12)	**16,847**	18,001
Royalties	**(1,680)**	(1,597)
Interest income	**49**	18
	15,216	16,422
EXPENSES		
Operating	**3,805**	4,141
Transportation	**866**	945
General and administrative	**2,104**	1,774
Transaction costs on acquisition (note 6)	**14**	-
Exploration expense	**25**	-
Share-based compensation (note 11)	**786**	858
Interest and financing charges	**160**	84
Depletion, depreciation and amortization (notes 7 and 8)	**6,906**	7,206
Accretion of decommissioning liability (note 10)	**109**	146
Impairment (note 8)	**-**	1,514
	14,775	16,668
OTHER INCOME		
Gain on disposition of assets (note 6)	**2,978**	143
Income (loss) before taxes	**3,419**	(103)
Deferred tax expense (note 13)	**726**	-
Net income (loss) and comprehensive income	**2,693**	(103)
Net income (loss) per share, (note 11d)		
Basic	**0.02**	-
Diluted	**0.02**	-

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
Balance, December 31, 2016	37,712	938	3,087	(4,555)	37,182
Share-based compensation expense (note 11)	-	549	309	-	858
Share-based compensation capitalized (note 11)	-	118	110	-	228
Net loss for the year	-	-	-	(103)	(103)
Balance, December 31, 2017	**37,712**	**1,605**	**3,506**	**(4,658)**	**38,165**
Share-based compensation expense (note 11)	-	469	317	-	786
Share-based compensation capitalized (note 11)	-	102	121	-	223
Net income for the year	-	-	-	2,693	2,693
Balance, December 31, 2018	**37,712**	**2,176**	**3,944**	**(1,965)**	**41,867**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000)	**2018**	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss) for the year	**2,693**	(103)
Items not involving cash:		
Deferred tax expense	**726**	-
Depletion, depreciation and amortization (notes 7 and 8)	**6,906**	7,206
Accretion of decommissioning liability (note 10)	**109**	146
Share-based compensation (note 11)	**786**	858
Impairment (note 8)	**-**	1,514
Gain on disposition of assets (note 6)	**(2,978)**	(143)
Transaction costs on property dispositions (note 6)	**(411)**	-
Decommissioning liabilities settled (note 10)	**(17)**	(54)
Change in non-cash working capital (note 16)	**1,973**	124
	9,787	9,548
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		
Change in bank debt (note 9)	**(2,108)**	4,252
	(2,108)	4,252
CASH FLOW USED IN INVESTING ACTIVITIES		
Property and equipment expenditures	**(32,392)**	(15,888)
Exploration and evaluation asset expenditures	**(719)**	(6,414)
Property acquisitions (note 6)	**(3,597)**	-
Property dispositions (note 6)	**27,686**	1,105
Long-term deposit	**-**	(345)
Change in non-cash working capital (note 16)	**1,343**	(917)
	(7,679)	(22,459)
CHANGE IN CASH AND CASH EQUIVALENTS	**-**	(8,659)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**-**	8,659
CASH AND CASH EQUIVALENTS, END OF YEAR	**-**	-
Cash interest paid	**160**	84

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

These financial statements were approved by the Board of Directors on March 20, 2019.

(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 net income (loss) in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. Altura recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

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

(b) Cash and cash equivalents

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

(c) Jointly owned assets

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

(d) Share-based compensation

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

(e) Exploration and evaluation assets

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

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

Gains and losses on disposals of exploration and evaluation assets are determined by comparing the proceeds to the net carrying value of the properties and are recognized in net income (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 net 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, including capitalized decommissioning costs, plus estimated future development costs of proved and probable reserves; and

(iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

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

(h) Impairment

Developed and Producing Assets

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

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

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

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

Exploration and Evaluation Assets

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

(i) Financial instruments

Amortized Cost

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

Fair Value through Profit or Loss (“FVTPL”)

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

Impairment of Financial Assets

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

(j) Decommissioning liabilities

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

revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in net income (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 net 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 net 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. CHANGES IN ACCOUNTING POLICIES

Newly Adopted Accounting Policies

(a) IFRS 15

The Corporation adopted IFRS 15, "Revenue from Contracts with Customers" on January 1, 2018. Altura used the modified retrospective adoption approach to adopt the new standard. The 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. The Corporation reviewed its revenue contracts with customers using the IFRS 15 five-step model. The adoption of IFRS 15 did not result in any adjustments to opening retained earnings and did not impact the Corporation's net income (loss) and financial position for the year ended December 31, 2017.

The additional disclosures required by IFRS 15 are detailed in note 12.

(b) IFRS 9

The Corporation retrospectively adopted IFRS 9, "Financial Instruments" on January 1, 2018. There were no adjustments to opening retained earnings and no adjustments to the amounts recognized in Altura's Financial Statements for the year ended December 31, 2017. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

Future Changes in Accounting Policies

(a) IFRS 16

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

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

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

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, 2018 and December 31, 2017, 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

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

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

Net assets acquired	**($000)**
Exploration and evaluation(1)	92
Property and equipment(2)	1,336
Prepaid expenses and deposits	10
Decommissioning liability(3)	(437)
	1,001
Consideration	
Cash	**1,001**

(1) Fair value based on recent land sale activity in the area.
(2) Fair value based on the December 31, 2018 reserves evaluation considering activities and changes from the acquisition date, which was prepared by McDaniel & Associates Consultants in accordance with National Instrument 51-101.
(3) Fair value using a credit adjusted discount rate of 10%.

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

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

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

Net assets acquired	**($000)**
Exploration and evaluation(1)	511
Property and equipment(2)	2,647
Prepaid expenses and deposits	56
Decommissioning liability(3)	(618)
	2,596
Consideration	
Cash	**2,596**

(1) Fair value based on recent land sale activity in the area.
(2) Fair value based on an internal reserves evaluation which was prepared by a member of Altura's management who is a qualified reserves evaluator in accordance with National Instrument 51-101 effective August 1, 2018.
(3) Fair value using a credit adjusted discount rate of 10%.

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

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

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.

7. EXPLORATION AND EVALUATION

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

($000)	Total
Balance, December 31, 2016	**7,865**
Additions	6,477
Acquisition	475
Dispositions	(643)
Transfer to property and equipment net of depletion (note 8)	(9,695)
Change in decommissioning costs	257
Depletion	(219)
Balance, December 31, 2017	**4,517**
Additions	719
Acquisition (note 6)	603
Disposition (note 6)	(1,071)
Transfer to property and equipment (note 8)	(4,768)
Balance, December 31, 2018	**-**

E&E assets consist of the Corporation's projects that have yet to be established as technically feasible and commercially viable. Additions represent Altura’s share of costs incurred on E&E assets during the periods. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of nil in year ended December 31, 2018 (December 31, 2017 – $190,000).

Impairment tests were conducted on the transfers of $4.8 million of E&E assets to property and equipment in 2018 and $9.7 million of E&E assets to property and equipment in 2017. No impairment was recorded on the transfers.

8. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost ($000)	**Developed and Producing Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2016	37,537	40	37,577
Additions	16,061	8	16,069
Disposition	(1,671)	-	(1,671)
Transfers from E&E assets (note 7)	10,080	-	10,080
Change in decommissioning costs	93	-	93
Balance, December 31, 2017	62,100	48	62,148
Additions	32,830	130	32,960
Acquisitions (note 6)	3,983	-	3,983
Dispositions (note 6)	(47,622)	-	(47,622)
Transfers from E&E assets (note 7)	4,768	-	4,768
Change in decommissioning costs	4,145	-	4,145
Balance, December 31, 2018	**60,204**	**178**	**60,382**
Depletion, depreciation and impairment ($000)			
Balance, December 31, 2016	(10,517)	(17)	(10,534)
Depletion, depreciation and amortization	(6,979)	(8)	(6,987)
Disposition	816	-	816
Transfers from E&E assets (note 7)	(385)	-	(385)
Impairment	(1,514)	-	(1,514)
Balance, December 31, 2017	(18,579)	(25)	(18,604)
Depletion, depreciation and amortization	(6,885)	(21)	(6,906)
Dispositions	18,297	-	18,297
Balance, December 31, 2018	**(7,167)**	**(46)**	**(7,213)**
Carry amounts ($000)			
As at December 31, 2017	43,521	23	43,544
As at December 31, 2018	**53,037**	**132**	**53,169**

Estimated future development costs of $95.5 million (December 31, 2017 – $40.2 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of $732,000 in the year ended December 31, 2018 (December 31, 2017 – $493,000).

Impairment

Subsequent to the May 31, 2018 disposition, Altura's D&P assets are included in a single CGU, the Leduc-Woodbend CGU. At December 31, 2018, the Corporation evaluated the Leduc-Woodbend CGU for indicators of any potential impairment. As a result of this assessment, no indicators were identified and no impairment test was performed for the year ended December 31, 2018.

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:

	WTI Crude Oil ($US/bbl) (1,2)	**Western Canadian Select Crude Oil ($CAD/bbl) (1,2)**	**Alberta AECO Gas ($CAD/mmbtu) (1,2)**	**Foreign Exchange ($US/$CAD) (1)**
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.

9. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in December 2018 and the borrowing base was revised to $6.0 million from the previous $3.0 million borrowing base. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of $10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of $0.75 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

The Credit Facility is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a $30.0 million debenture with a first floating charge over all assets of the Corporation. Altura is subject to certain reporting and financial covenants 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, 2018, the working capital ratio as defined was 1.3:1 (December 31, 2017 – 4.2:1). The next review date for the Credit Facility has been set for May 31, 2019.

As at December 31, 2018, $2.1 million (December 31, 2017 - $4.3 million) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for $160,000 (December 31, 2017 - $201,000).

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, 2018 to be approximately $5.9 million (December 31, 2017 – $6.6 million) with the majority of costs anticipated to be incurred between 2030 and 2036. A risk-free discount rate of 2.2 percent (December 31, 2017 – 2.3 percent) and an inflation rate of 2.0 percent (December 31, 2017 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

($000)	**Year ended December 31, 2018**	Year ended December 31, 2017
Balance, beginning of year	**6,578**	6,181
Additions	**923**	595
Liabilities disposed (note 6)	**(6,099)**	(45)
Liabilities acquired (note 6)	**1,055**	-
Change in estimates(1)	**800**	(245)
Revaluation of liabilities acquired(2)	**2,422**	-
Decommissioning liabilities settled	**(17)**	(54)
Accretion	**109**	146
Balance, end of year	**5,771**	6,578
Expected to be incurred within one year	**15**	66
Expected to be incurred beyond one year	**5,756**	6,512

(1) The change in estimates consists of a change in the risk-free discount rate of $153,000 (December 31, 2017 - $32,000) and a change in abandonment and remediation cost estimates and future abandonment dates of $647,000 (December 31, 2017 - $277,000 credit).

(2) Amount relates to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisitions, 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)**
Balance, December 31, 2016, December 31, 2017, and December 31, 2018	**108,920,973**	**37,712**

(c) Stock options:

The Corporation has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10 percent of the outstanding shares of Altura and the maximum term of options granted is five years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. As at December 31, 2018 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the years ended December 31, 2018 and 2017.

A summary of the Corporation's outstanding stock options at December 31, 2018 is presented below:

	Number of Stock Options	Weighted Average Exercise Price ($)
Balance, December 31, 2016	5,570,000	0.31
Granted	1,640,000	0.41
Balance, December 31, 2017	7,210,000	0.33
Granted	1,180,000	0.38
Balance, December 31, 2018	**8,390,000**	**0.34**

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2018 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low ($)	High ($)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)
0.27	0.41	8,390,000	3.0	0.34	5,410,002	2.4	0.33
		8,390,000	**3.0**	**0.34**	**5,410,002**	**2.4**	**0.33**

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, 2018	Year ended December 31, 2017
Weighted average fair value of options granted ($)	**0.22**	0.26
Risk-free interest rate (%)	**2.17**	1.66
Expected life (years)	**3.5**	3.5
Expected volatility (%)	**85.9**	94.6
Estimated forfeiture rate (%)	**5.0**	5.0
Expected dividends ($)	**-**	-

The Corporation's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the year ended December 31, 2018 was $438,000 (December 31, 2017 – $419,000) of which $121,000 was capitalized (December 31, 2017 – $110,000).

(d) Weighted average common shares:

	Year ended December 31, 2018	Year ended December 31, 2017
Basic	**108,920,973**	108,920,973
Diluted	**110,411,519**	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, 2018, 2,820,000 stock options and 9,749,879 performance warrants were excluded from the weighted average number of common shares as they were anti-dilutive (2017 – 7,210,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at December 31, 2018 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price ($)
Balance, December 31, 2016, December 31, 2017 and December 31, 2018	**9,749,879**	**0.449**

The performance warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding $0.675, an additional one-third upon the trading price equaling or exceeding $0.901 and a final one-third upon the trading price equaling or exceeding $1.124. The performance warrants expire on July 31, and August 28, 2020. As at December 31, 2018 no performance warrants are exercisable. On the grant date, the weighted average fair value of $0.27 per performance warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of $0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based compensation relating to performance warrants for the year ended December 31, 2018 was $571,000 (December 31, 2017 – $667,000) of which $102,000 was capitalized (December 31, 2017 – $118,000), respectively. The fair value of the performance warrants is being expensed over the expected life.

12. REVENUE

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

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

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

($000)	**Year Ended December 31, 2018**	Year Ended December 31, 2017
Heavy oil	**11,425**	6,290
Medium oil	**4,081**	10,449
Natural gas	**816**	923
Natural gas liquids	**525**	339
Petroleum and natural gas sales	**16,847**	18,001

As at December 31, 2018, receivables from contracts with customers were $108,000, which are included in accounts receivable and payables from contracts with customers were $41,000, which are included in accounts payable and accrued liabilities ($1,903,000 receivable at December 31, 2017).

13. INCOME TAXES

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

($000)	**Year ended December 31, 2018**	Year ended December 31, 2017
Income (loss) before taxes	**3,419**	(103)
Combined federal and provincial income tax rate	**27%**	27%
Computed income tax expense (recovery)	**923**	(28)
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	**237**	245
Non-deductible expenses	**2**	2
Change in estimates and other	**(23)**	(28)
Change in unrecognized deferred tax asset	**(413)**	(191)
Deferred tax expense	**726**	-

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

($000)	**December 31, 2018**	December 31, 2017
Deferred income tax liabilities:		
Property and equipment and E&E assets	**(5,566)**	(3,720)
Deferred income tax assets:		
Decommissioning liability	**1,558**	1,776
Non-capital losses	**3,212**	1,867
Share issue costs	**14**	31
Deferred lease obligation	**10**	-
Deferred tax liability	**(726)**	-

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

($000)	**December 31, 2018**	December 31, 2017
Temporary differences associated with unrecognized deferred tax assets:		
Non-capital losses	**-**	1,531

Altura has non-capital losses of $12.0 million at December 31, 2018 that expire between 2025 and 2039.

14. FINANCIAL INSTRUMENTS

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

Credit Risk

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

The majority of the credit exposure on accounts receivable at December 31, 2018 pertains to receivables from joint interest partners, an Alberta government agency and the Canada Revenue Agency. Accounts receivable from Altura's marketers was immaterial at December 31, 2018 due to the sharp decline in December 2018 realized oil prices. At December 31, 2018, 33 percent, and 10 percent of total outstanding accounts receivable pertains to two joint interest partners and 17 percent and 13 percent pertain to an Alberta government agency and the Canada Revenue Agency. 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, 2018. For the year ended December 31, 2018, the Corporation received approximately 28 percent, 20 percent and 11 percent of its revenue from three marketing companies (2017 – 65 percent, 17 percent and 12 percent from three marketing companies).

At December 31, 2018, the Corporation's trade receivables have been aged as follows:

As at ($000)	**December 31, 2018**	December 31, 2017
Current	**263**	1,949
31 – 60 days	**151**	75
61 – 90 days	**47**	178
> 90 days	**189**	95
Allowance for doubtful accounts	**-**	-
Total	**650**	2,297

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

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, access to these external sources may change at any time and are subject to numerous factors. 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, 2018.

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, 2018.

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, 2018.

If interest rates were to increase or decrease by one percent, it is estimated that Altura's loss would change by approximately $19,000 for the year ended December 31, 2018 using the average monthly bank debt outstanding under Altura's Credit Facility for the year ended December 31, 2018.

15. CAPITAL MANAGEMENT

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

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

Annualized Adjusted Funds Flow

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

Annualized adjusted funds flow for the fourth quarters of 2018 and 2017 is calculated as follows:

($000)	**Three months ended December 31, 2018**	Three months ended December 31, 2017
Annualized adjusted funds flow:		
Quarterly cash flow from operating activities	**4,200**	1,940
Changes in non-cash working capital	**(3,370)**	570
Decommissioning expenditures	**(4)**	16
Quarterly adjusted funds flow	**826**	2,526
Annualized adjusted funds flow	**3,304**	10,104

Net Debt

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

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, the Corporation's ratio of net debt to annualized adjusted funds flow was 1.5 times at December 31, 2018, which was negatively impacted by the sharp decline in Canadian oil prices in the fourth quarter of 2018. Using adjusted funds flow of $8,256,000 for the year ended December 31, 2018, Altura's ratio of net debt to adjusted funds flow was 0.6 times at December 31, 2018.

	December 31, 2018	December 31, 2017
Net debt ($000)	**4,820**	3,729
Annualized adjusted funds flow ($000)	**3,304**	10,104
Net debt to annualized adjusted funds flow (times)	**1.5**	0.4

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 2018.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

($000)	**Year ended December 31, 2018**	Year ended December 31, 2017
Provided by (used in):		
Accounts receivable	**1,647**	(21)
Prepaid expenses and deposits	**(100)**	(32)
Accounts payable and accrued liabilities	**1,666**	(740)
Deferred lease obligation	**37**	-
Prepaid expenses acquired in acquisitions (note 6)	**66**	-
	3,316	(793)
Provided by (used in):		
Operating activities	**1,973**	124
Investing activities	**1,343**	(917)
	3,316	(793)

17. COMMITMENTS AND CONTINGENCIES

The following table summarizes Altura's contractual obligations and commitments as at December 31, 2018:

				Payments Due by Year			
($000)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Office lease	42	167	170	182	190	143	894
Total contractual obligations and commitments	**42**	**167**	**170**	**182**	**190**	**143**	**894**

18. PERSONNEL EXPENSES

The aggregate compensation of key management personnel was as follows:

($000)	**Year ended December 31, 2018**	Year ended December 31, 2017
Salaries and benefits	**1,560**	1,400
Share-based compensation	**1,001**	1,086
	2,561	2,486

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

David Burghardt
President & Chief Executive Officer
Altura Energy Inc.

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**