

## 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 May 9, 2017 and should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2017, the audited consolidated financial statements and related notes for the year ended December 31, 2016, as well as the Corporation's Annual Information Form that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, in Canadian dollars, except where indicated otherwise.

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

### DESCRIPTION OF BUSINESS

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

### RESULTS OF OPERATIONS

#### Production

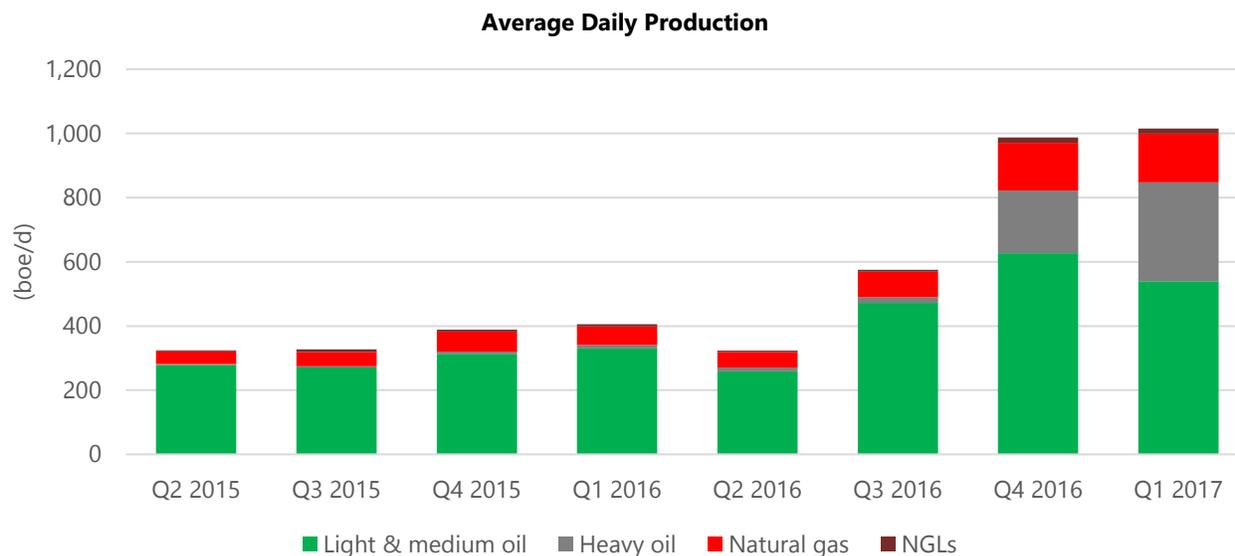
	Three months ended March 31		
	2017	2016	% Change
Light and medium oil (bbls/d)	539	330	63
Heavy oil (bbls/d)	309	11	>500
Natural gas (mcf/d)	909	348	161
Natural gas liquids (bbls/d)	16	7	129
Total (boe/d)	1,015	405	151
Oil and natural gas liquids % of production	85%	86%	(1)

Production volumes increased 151 percent to average 1,015 boe per day in the first quarter of 2017, compared to 405 boe per day in the first quarter of 2016. Light and medium oil production increased 63 percent to 539 barrels per day from 330 barrels per day in the first quarter of 2016. Heavy oil production increased to 309 barrels per day from 11 barrels per day in the first quarter of 2016. Natural gas production increased 161 percent to 909 mcf per day from 348 mcf per day in the first quarter of 2016.

The increase in light and medium oil and natural gas production in the first quarter of 2017 is due to three wells drilled and brought on production in the Eyehill area in the second half of 2016 and an asset acquisition that closed on September 14, 2016, in the Killam area of Alberta (the "Killam Acquisition") that added 123 boe per day in the quarter. The increase in heavy oil production is due to four gross (3.5 net) wells drilled and brought on production in November and December 2016, including one well in the Leduc-Woodbend area, two gross (1.5 net) wells in the Wildmere area and one well in the Provost Minor area.

Altura's second Leduc-Woodbend well was drilled in January and brought on production on March 28, 2017 and accordingly did not have a significant impact on production for the first quarter of 2017. Five other wells were drilled in the first quarter of 2017 and were brought on production in April 2017. See "Capital Expenditures" for further information on Altura's capital investing activities.

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



**Revenue**

(\$000)	Three months ended March 31		
	2017	2016	% Change
Light and medium oil	2,594	848	206
Heavy oil	1,285	22	>500
Natural gas	242	62	290
Natural gas liquids	57	14	307
<b>Petroleum and natural gas sales</b>	<b>4,178</b>	<b>946</b>	<b>342</b>

Petroleum and natural gas sales for the first quarter of 2017 increased 342 percent to \$4,178,000 compared to \$946,000 in the first quarter of 2016. The quarter-over-quarter increase of \$3,232,000 consists of \$1,939,000 attributed to increased production volumes, and \$1,293,000 attributed to higher realized prices.

Altura sells all of its crude oil 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 benchmark trading exchanges that Altura compares its oil price to are the West Texas Intermediate ("WTI") oil spot price and the Western Canadian Select ("WCS") spot price. The differential between the WTI spot price and WCS spot price can widen due to several factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

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

	<b>Three months ended March 31</b>		
	<b>2017</b>	2016	% Change
<b>Average Benchmark Prices</b>			
WTI crude oil (US\$/bbl) <sup>(1)</sup>	<b>51.91</b>	33.45	55
WCS differential (US\$/bbl) <sup>(2)</sup>	<b>(14.58)</b>	(14.31)	2
US\$/Cdn\$ exchange rate	<b>0.756</b>	0.728	4
WCS (Cdn\$/bbl)	<b>49.38</b>	26.29	88
AECO daily spot (\$/GJ)	<b>2.55</b>	1.74	47
<b>Average Realized Prices</b>			
Light and medium oil (\$/bbl)	<b>53.52</b>	28.30	89
Heavy oil (\$/bbl)	<b>46.23</b>	20.57	125
Natural gas (\$/mcf)	<b>2.96</b>	1.96	51
Natural gas liquids (\$/bbl)	<b>40.56</b>	24.26	67
Average realized price (\$/boe)	<b>45.76</b>	25.65	78
<b>Oil Price Differentials</b>			
Light and medium oil differential to WCS (\$/bbl)	<b>4.14</b>	2.01	106
Heavy oil differential to WCS (\$/bbl)	<b>(3.15)</b>	(5.72)	(45)

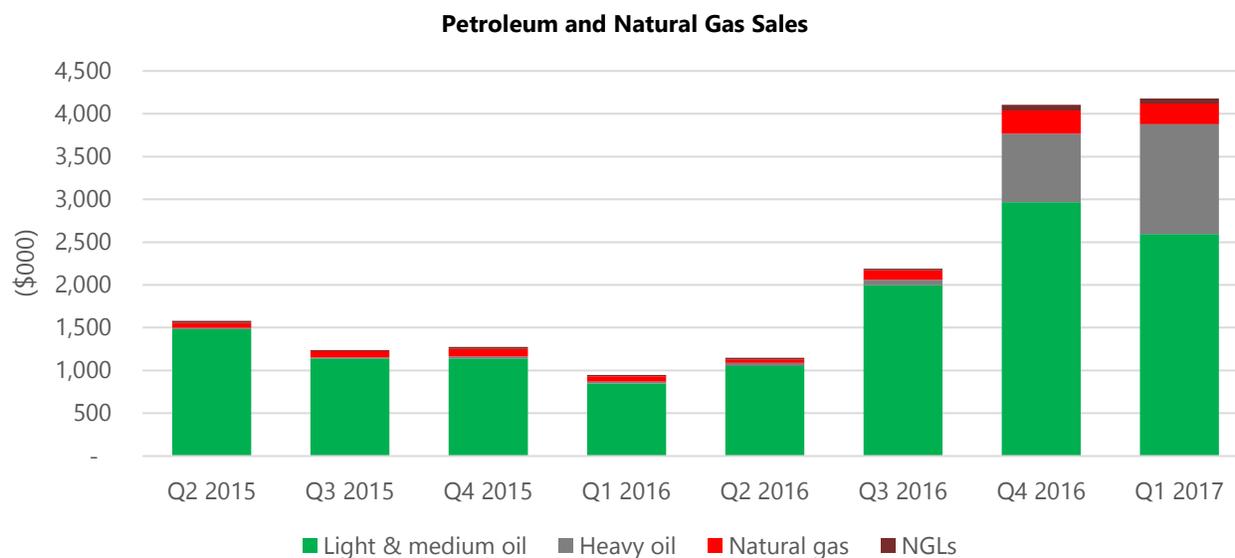
(1) WTI represents posting price of West Texas Intermediate crude oil.

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

In the first quarter of 2017, WCS increased 88 percent to \$49.38 per barrel from \$26.29 per barrel in the first quarter of 2016. Altura's realized light and medium oil price increased 89 percent over the same time period, averaging \$53.52 per barrel, and its realized heavy oil price increased 125 percent over the same time period, averaging \$46.23 per barrel. The incremental increase in the realized heavy oil price over WCS reflects an increase in average oil quality from the wells drilled in the fourth quarter of 2016 compared to the average heavy oil quality in the first quarter of 2016.

Altura's realized natural gas price increased by 51 percent during the first quarter of 2017 compared to the first quarter of 2016. This price increase is consistent with the increase in the AECO daily spot price over the same period.

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



## Royalties

(\$000, except % and per boe)	Three months ended March 31		
	2017	2016	% Change
Crown royalties	233	43	442
Freehold and overriding royalties	150	6	>500
Royalty expense	383	49	>500
Royalty expense as a % of sales	9.2%	5.2%	77
Royalty expense per boe	4.20	1.33	216

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

In the three months ended March 31, 2017, royalties as a percentage of sales increased 77 percent from the comparative prior period, due to increases in both Crown and freehold and overriding royalties.

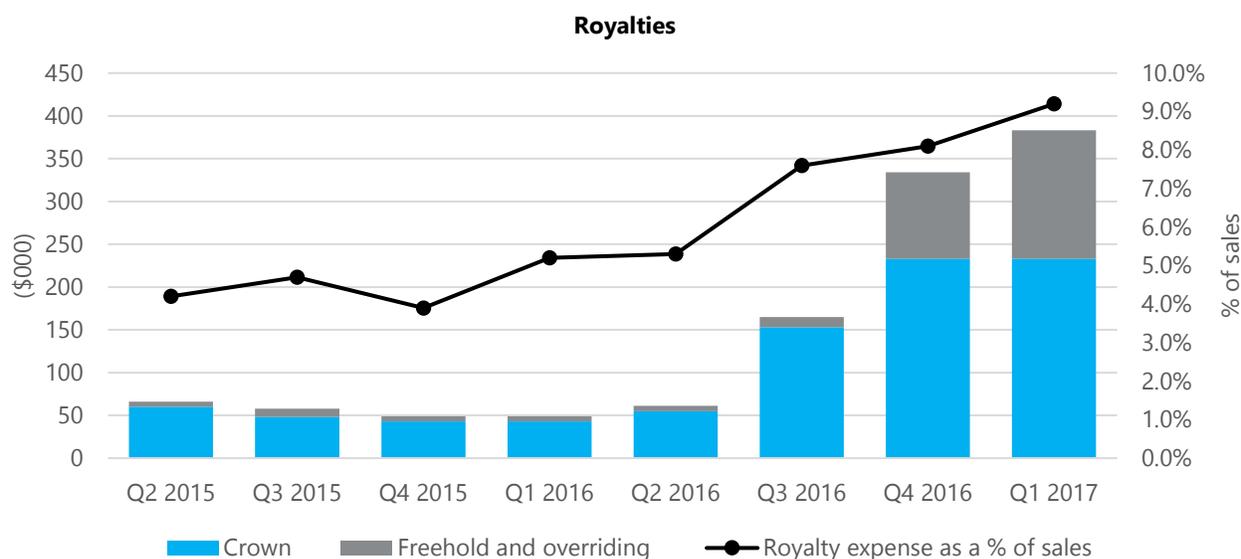
Crown royalties are based on a sliding scale with sensitivity to price, total volume produced and royalty incentives for new wells drilled on Crown lands. Crown royalties increased in the first quarter of 2017 due to increased oil prices, and a relative decrease in royalty incentives compared to the first quarter of 2016.

The increase in freehold and overriding royalties is due to production from wells drilled on freehold mineral lands in the Leduc-Woodbend area, coupled with an increase in freehold royalties associated with the Killam Acquisition.

In 2016, the provincial government of Alberta announced the key highlights of the Modernized Royalty Framework ("MRF") that was effective on January 1, 2017. These highlights include the replacement of royalty credits and holidays on conventional wells through a Drilling and Completion Cost Allowance to emulate a revenue minus cost framework, a post-payout royalty rate based on commodity prices, and the reduction of royalty rates for mature wells, with the intent of delivering a neutral internal rate of return for any given play compared to the previous Alberta Royalty Framework. No changes will be made to the royalty structure of wells drilled prior to January 2017 for a 10-year period from the royalty program's implementation date. Details of the MRF calibration formulas have been released and more specific information can be found on the Alberta government's website.

For Altura, the economics of drilling in its Upper Mannville oil plays subject to the MRF, within expected price ranges, are comparable with the previous Alberta Royalty Framework.

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



## Operating and Transportation Costs

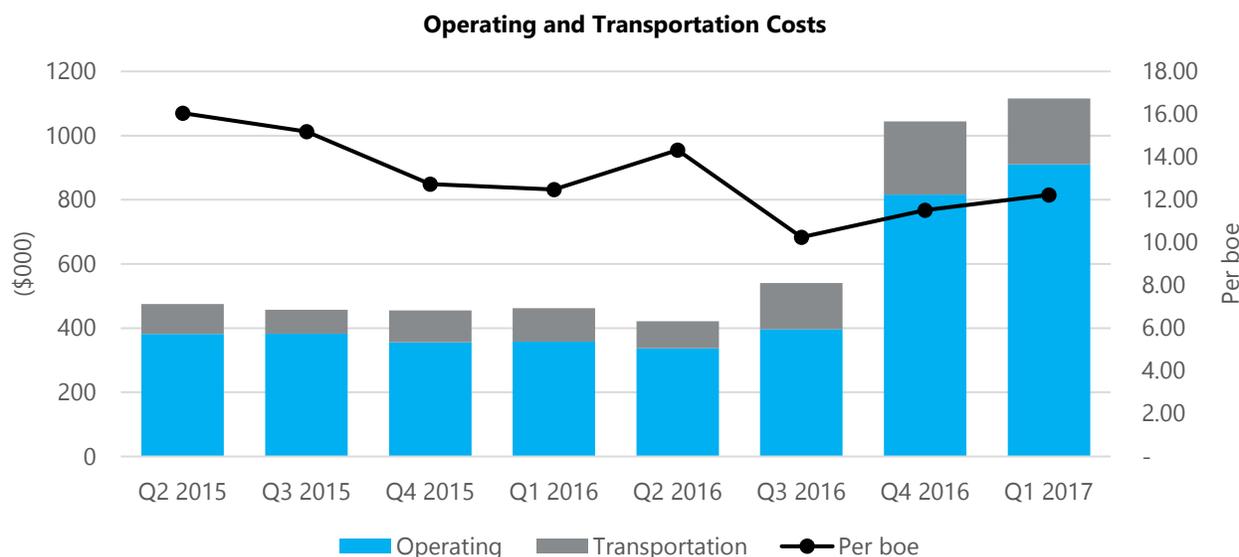
(\$000, except per boe)	Three months ended March 31		
	2017	2016	% Change
Operating	910	358	154
Transportation	206	104	98
Operating and transportation	1,116	462	142
Operating per boe	9.96	9.67	3
Transportation per boe	2.26	2.81	(20)
Operating and transportation per boe	12.22	12.48	(2)

Operating and transportation costs increased to \$1,116,000 for the three months ended March 31, 2017, compared to \$462,000 for the same period in 2016. This increase is due to Altura's increase in production volumes.

On a per boe basis, operating and transportation costs were \$12.22 for the three months ended March 31, 2017 compared to \$12.48 for the same period in 2016. Transportation costs in the first quarter of 2017 decreased 20 percent to \$2.26 from the first quarter of 2016 due to a relative decrease in clean oil trucking, which is recorded as a transportation expense, offset by a relative increase in emulsion hauling, which is recorded as an operating expense. This decrease in clean oil trucking and increase in emulsion hauling is primarily due to the Eyehill battery upgrade in February. Normal operations were disrupted and the production volumes at the Eyehill battery could not be treated. During this period, the production was stored in temporary tank facilities and emulsion was trucked to the oil sales point for treating. Following completion of the battery upgrade in February the Corporation was back to normal operating conditions with trucking clean oil to the oil sales point and produced water to disposal facilities.

First quarter of 2017 operating and transportation costs of \$12.22 increased six percent compared to \$11.51 for the fourth quarter of 2016. This increase was primarily a result of activities in the Eyehill and LWB areas. In Eyehill the increased costs related to work-overs and increased emulsion treating. At LWB there was an increase in emulsion hauling and treating costs related to growing production in this new area.

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



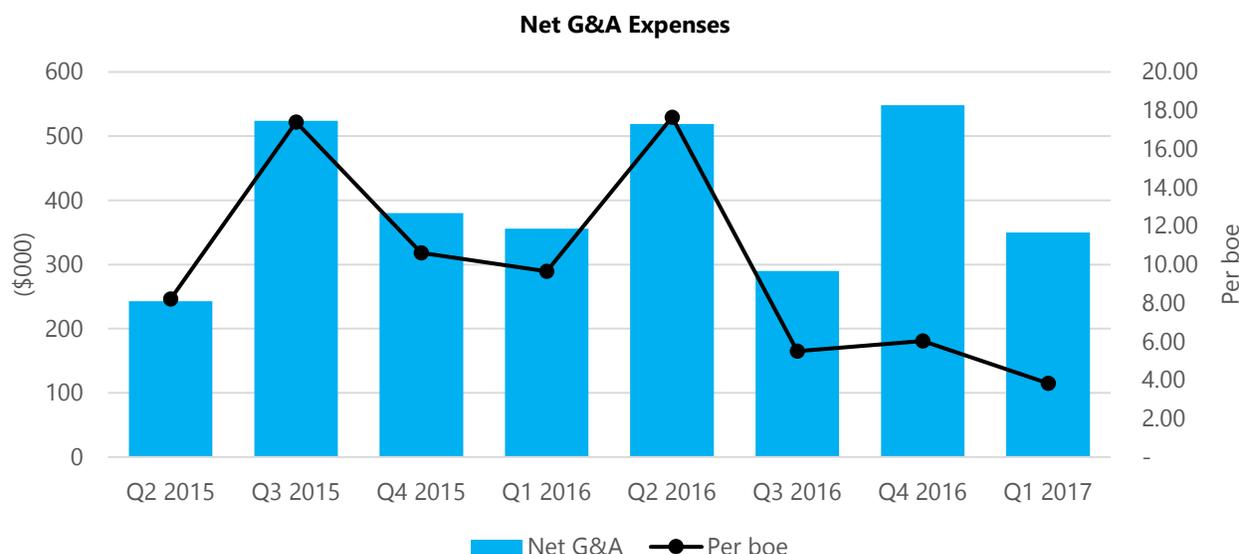
## General and Administrative ("G&A") Expenses

(\$000, except per boe)	Three months ended March 31		
	2017	2016	% Change
Gross G&A	462	408	13
Capitalized G&A and overhead recoveries	(112)	(52)	115
Net G&A expenses	350	356	(2)
Net G&A per boe	3.83	9.65	(60)

Net G&A expenses totaled \$350,000 for the three months ended March 31, 2017, consistent with \$356,000 for the same period in 2016. Net G&A expenses decreased 60 percent to \$3.83 per boe for the three months ended March 31, 2017 due to higher production volumes.

Altura's policy is to capitalize costs that are directly attributable to investments of property and equipment or exploration and evaluation assets. The increase in capitalized G&A and overhead recoveries in the three months ended March 31, 2017 is a result of increased capital spending compared to the same period in 2016.

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



The increased net G&A observed in the third quarter of 2015, the second quarter of 2016 and the fourth quarter of 2016 primarily relate to additional costs associated with Altura's July 2015 reorganization, severance to a former officer, and management bonuses, respectively.

## Interest and Financing Expenses

(\$000, except per boe)	Three months ended March 31		
	2017	2016	% Change
Interest and financing expenses	6	6	-
Interest and financing expenses per boe	0.07	0.18	(61)

Interest and financing expenses in the three months ended March 31, 2017 and 2016, relate to standby charges associated with the Corporation's credit facility.

## Interest Income

(\$000, except per boe)	Three months ended March 31		
	2017	2016	% Change
Interest income	14	44	(68)
Interest income per boe	0.16	1.19	(87)

Interest income decreased 68 percent in the first quarter of 2017 to \$14,000 from \$44,000 earned in the first quarter of 2016 due to a lower average cash balance invested in the first quarter of 2017.

## Netbacks

(\$/boe)	Three months ended March 31		
	2017	2016	% Change
Petroleum and natural gas sales	45.76	25.65	78
Royalties	(4.20)	(1.33)	216
Operating	(9.96)	(9.67)	3
Transportation	(2.26)	(2.81)	(20)
Operating netback	29.34	11.84	148
General and administrative	(3.83)	(9.65)	(60)
Interest and financing expenses	(0.07)	(0.18)	(61)
Interest income	0.16	1.19	(87)
Corporate netback	25.60	3.20	>500

Altura's corporate netback was \$25.60 per boe in the first quarter of 2017 compared to \$3.20 per boe in the same period of 2016. The increase is mainly a result of increased realized prices, decreased G&A and lower transportation costs, partially offset by increased royalty expenses and decreased interest income.

## Share-Based Compensation

(\$000)	Three months ended March 31		
	2017	2016	% Change
Share-based compensation	273	297	(8)
Capitalized share-based compensation	(49)	(20)	145
Share-based compensation expense	224	277	(19)

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation uses the fair-value method for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. For the three months ended March 31, 2017, share-based compensation expense includes \$142,000 related to performance warrants and \$82,000 related to stock-options. In the three months ended March 31, 2016, share-based compensation expense includes \$165,000 related to performance warrants and \$112,000 related to stock-options.

Altura's policy is to capitalize costs that are directly attributable to the construction of property and equipment or exploration and evaluation assets. The increase in capitalized share-based compensation in the three months ended March 31, 2017, is a result of increased capital spending compared to the same period in 2016.

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

(\$000, except per boe)	Three months ended March 31		
	2017	2016	% Change
DD&A	2,064	742	178
DD&A per boe	22.61	20.13	12

Altura uses proved and probable reserves to calculate DD&A expense. For the three months ended March 31, 2017, DD&A increased 178 percent to \$2,064,000 over the first quarter of 2016 due to increased production volumes.

DD&A increased to \$22.61 per boe in the first quarter of 2017 from \$20.13 per boe in the first quarter of 2016 reflecting a relative increase in production from the Provost Minor area with a higher finding and development cost than the aggregate amount in the first quarter of 2016.

## 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 costs of disposal. 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 March 31, 2017, Altura evaluated its developed and producing ("D&P") assets and exploration and evaluation ("E&E") assets on a cash generating unit basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on Altura's D&P assets and E&E assets for the three months ended March 31, 2017.

## Deferred Taxes

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

## Cash Flow from Operating Activities and Funds from Operations

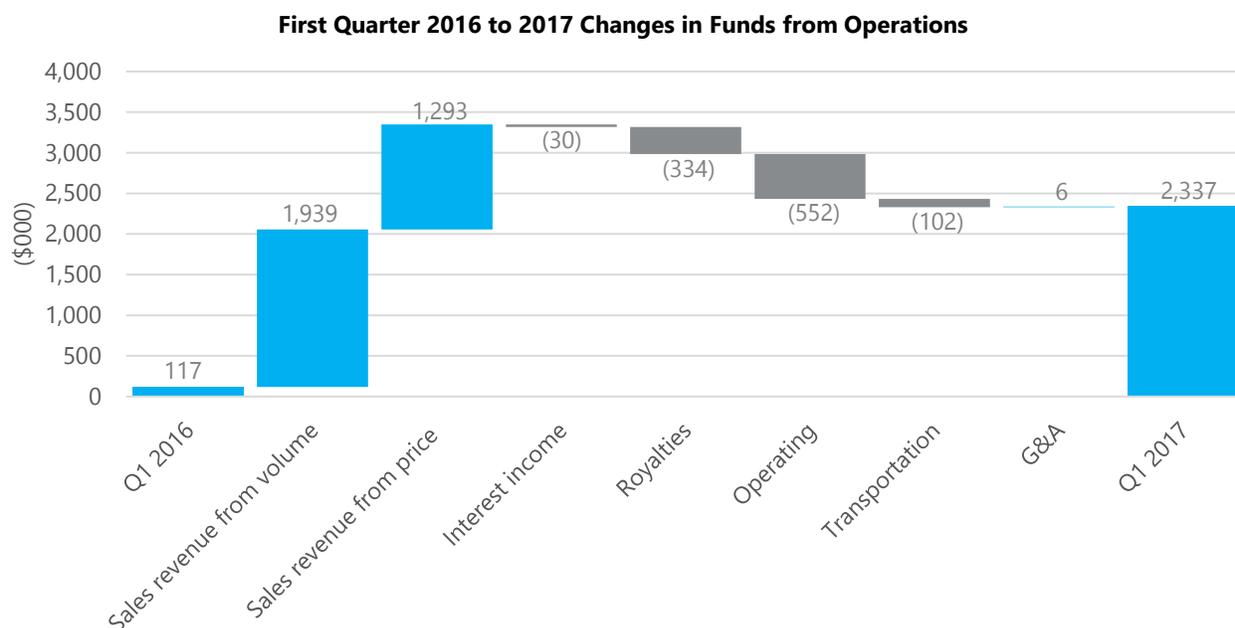
Management uses funds from operations to analyze operating performance. Funds from operations and funds from operations per share are non-GAAP measures defined by the Corporation as cash flow from operating activities from the statements of cash flows before decommissioning expenditures, if any, transaction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

(\$000, except per share amounts)	Three months ended March 31		
	2017	2016	% Change
Cash flow from (used in) operating activities	2,794	(137)	(>500)
Decommissioning liabilities settled	11	-	-
Changes in non-cash operating working capital	(468)	254	(284)
Funds from operations	2,337	117	>500
Per share – basic	0.02	-	-
Per share – diluted	0.02	-	-

Cash flow from operating activities increased to \$2,794,000 for the three months ended March 31, 2017, compared to cash flow used in operating activities of \$137,000 in the same period of 2016. The increase is due to increased revenue from incremental production volumes and higher commodity prices coupled with a decrease in non-cash working capital, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and lower interest income. Non-cash working capital decreased by \$468,000 for the three months ended March 31, 2017, mainly due to the decrease in accounts receivable as at March 31, 2017, due to collecting overdue accounts receivable in the first quarter of 2017 and lower March 2017 revenue compared to December 2016 revenue that was collected subsequent to the respective period ends.

Details of the change in funds from operations and corporate netback per boe from the three months ended March 31, 2016, to the three months ended March 31, 2017, are as follows:

	Three months ended March 31	
	\$000	\$/boe
<b>Funds from operations / Corporate netback – Q1 2016</b>	<b>117</b>	<b>3.20</b>
Volume variance	1,939	-
Price variance	1,293	20.11
Interest and other income	(30)	(1.03)
Royalties	(334)	(2.87)
Expenses:		
Operating	(552)	(0.29)
Transportation	(102)	0.55
General and administrative	6	5.82
Interest and financing	-	0.11
<b>Funds from operations / Corporate netback – Q1 2017</b>	<b>2,337</b>	<b>25.60</b>



Funds from operations increased \$2,220,000 in the first quarter of 2017 to \$2,337,000 from \$117,000 generated in the first quarter of 2016. The increase reflects higher revenue due to increased production volumes and higher commodity prices, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and decreased interest income.

## Income (loss)

(\$000, except per share amounts)	Three months ended March 31		
	2017	2016	% Change
Income (loss)	13	(753)	(102)
Per share – basic	-	(0.01)	(100)
Per share – diluted	-	(0.01)	(100)

For the three months ended March 31, 2017, Altura generated income of \$13,000 compared to a loss of \$753,000 in the first quarter of 2016. The increased income of \$766,000 is primarily attributed to increased revenue, partially offset by increased operating, transportation, and DD&A associated with the Corporation's production growth.

## Capital Expenditures

(\$000)	Three months ended March 31		
	2017	2016	% Change
Geological and geophysical	37	36	3
Land	1,247	49	>500
Drilling and completions	5,187	-	-
Workovers	188	-	-
Equipping and facilities	2,180	47	>500
Other	113	72	57
Total capital expenditures	8,952	204	>500

In the first quarter of 2017, Altura invested a total of \$9.0 million on capital expenditures including: \$7.6 million on drilling, completing, workovers, equipping and facilities; and \$1.2 million on land. Altura drilled six wells in the first quarter, including one Rex oil well at LWB, three Sparky oil wells at Eyehill, one Rex oil well at Killam, and one Sparky oil well in the Macklin area on the Saskatchewan side of the border. The LWB well was completed in March and brought on-production during the last week of March, while the other five wells were completed in April. Altura incurred \$1.5 million upgrading its multi-well battery in the Eyehill area related to the initiation of a waterflood pilot, which is planned to commence water injection in the second half of 2017. Land costs in the first quarter of 2017 are primarily related to Crown land sales and land acquisitions in the Leduc-Woodbend area of Alberta.

## Decommissioning Liability

At March 31, 2017, Altura recorded a decommissioning liability of \$6.6 million (December 31, 2016 - \$6.2 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 2.3 percent (December 31, 2016 – 2.3 percent). Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The increase in liability is due to new wells drilled in the first quarter of 2017.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the three months ended March 31, 2017, accretion expense totaled \$36,000 (March 31, 2016 - \$8,000).

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 6.7 at March 31, 2017. The LMR is the ratio of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Corporation to pay a deposit to the AER.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **Working Capital**

The Corporation had a working capital surplus of \$2.4 million at March 31, 2017, compared to \$8.5 million at December 31, 2016. At March 31, 2017, the major components of Altura's current assets were cash and cash equivalents (72 percent), and revenue (16 percent) to be received from its oil and gas marketers in respect to March 2017 production. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectable. Current liabilities largely consist of trade and joint interest payables (36 percent) and accrued liabilities (64 percent) related to the Corporation's operations. The Corporation manages its working capital using a combination of its funds from operations and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash in a short-term interest bearing account with its lender.

### **Credit Facility**

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender") with a maximum borrowing limit of \$4.0 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Corporation is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility may be added to current assets. At March 31, 2017, the working capital ratio under the terms of the Credit Facility was calculated to be 2.2:1 (December 31, 2016 – 5.9:1). The next review date for the Credit Facility has been set for May 31, 2017.

### **Shareholders' Equity**

At March 31, 2017, there were 108,920,973 common shares outstanding, 9,749,879 performance warrants outstanding and 5,570,000 stock options outstanding. The number of common shares, performance warrants and stock options outstanding remains unchanged from December 31, 2016.

At May 9, 2017, the number of common shares, performance warrants and stock options outstanding remain unchanged from March 31, 2017.

### **Liquidity**

At March 31, 2017, Altura had a working capital surplus of \$2.4 million, no debt and \$4.0 million available on its Credit Facility. Altura expects to have adequate liquidity to fund its remaining 2017 capital expenditure forecast of \$8.0 million through a combination of available cash on hand, funds from operations and the \$4.0 million Credit Facility, if required. Altura's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserves evaluator.

### **Contractual Obligations and Commitments**

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

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2017		2016			2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>OPERATING</b>								
Average daily production								
Light and medium oil (bbls/d)	539	627	472	259	330	313	271	279
Heavy oil	309	195	18	12	11	7	4	3
Natural gas (mcf/d)	909	890	473	289	348	374	267	238
NGLs (bbls/d)	16	17	6	4	7	6	8	3
Total (boe/d)	1,015	988	574	323	405	389	328	325
Average realized sales price								
Light and medium oil (\$/bbl)	53.52	51.37	46.04	44.60	28.30	39.67	45.58	58.35
Heavy oil (\$/bbl)	46.23	44.54	37.68	35.43	20.57	29.86	37.40	48.11
Natural gas (\$/mcf)	2.96	3.34	2.53	1.53	1.96	2.59	3.05	2.83
NGLs (\$/bbl)	40.56	44.75	33.53	52.30	24.26	41.13	17.16	86.22
Total (\$/boe)	45.76	45.20	41.41	39.08	25.65	35.66	41.12	53.44
<b>OPERATING NETBACK</b> (\$ per boe) <sup>(1)</sup>								
Petroleum and natural gas sales	45.76	45.20	41.41	39.08	25.65	35.66	41.12	53.44
Royalty expenses	(4.20)	(3.67)	(3.13)	(2.06)	(1.33)	(1.37)	(1.93)	(2.22)
Operating costs	(9.96)	(8.99)	(7.53)	(11.45)	(9.67)	(9.97)	(12.72)	(12.92)
Transportation costs	(2.26)	(2.52)	(2.73)	(2.88)	(2.81)	(2.76)	(2.47)	(3.14)
Operating netback <sup>(1)</sup>	29.34	30.02	28.02	22.69	11.84	21.56	24.00	35.16
<b>FINANCIAL</b> (\$000, except per share)								
Petroleum and natural gas sales	4,178	4,106	2,189	1,149	946	1,275	1,239	1,580
Funds from operations <sup>(1)</sup>	2,337	2,197	1,193	149	117	415	209	790
Per share – basic and diluted <sup>(1)</sup>	0.02	0.02	0.01	-	-	-	-	0.02
Cash flow from (used in) operating activities	2,794	1,683	763	28	(137)	265	(451)	715
Per share – basic and diluted	0.03	0.02	0.01	-	-	-	(0.01)	0.02
Income (loss)	13	264	(68)	(692)	(753)	(417)	(3,955)	203
Per share – basic and diluted	-	-	-	(0.01)	(0.01)	-	(0.05)	0.01
(\$000)								
Capital expenditures, net	8,952	6,945	8,049	2,294	204	1,667	160	969
Total assets	49,083	45,915	44,704	41,431	40,048	40,948	40,811	20,549
Working capital surplus (deficit)	2,436	8,455	13,209	20,011	22,199	22,129	23,151	(515)
Shareholders' equity	37,468	37,182	36,632	36,410	36,870	37,326	37,205	16,250
Common shares outstanding (000)								
Weighted average for the period - basic	108,921	108,921	108,921	108,921	108,921	108,821	82,301	35,074
Weighted average for the period - diluted	109,289	108,921	108,921	108,921	108,921	108,821	82,301	35,074
Shares outstanding, end of period	108,921	108,921	108,921	108,921	108,921	108,921	107,901	34,703

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

Quarter over quarter fluctuations in revenue are the result of both the amount of oil and gas volumes sold as well as Altura's realized price. Crude oil and natural gas prices increased over the second, third and fourth quarters of 2016 and the first quarter of 2017 contributing to increased petroleum and natural gas sales in the quarters.

Capital expenditures increased in 2016 from 2015 and included seven gross (6.5 net) wells and a property acquisition, which resulted in an increase in production volumes in the third and fourth quarters of 2016 and the first quarter of 2017. Capital expenditures in the first quarter of 2017 included drilling six wells and completing one well.

The Corporation recorded an impairment charge of \$2.35 million in the third quarter of 2015 related to declines in forward commodity prices for crude oil and natural gas and a reduction in proved plus probable reserves. This resulted in the loss in the third quarter of 2015. Altura recorded income in the fourth quarter of 2016 and the first quarter of 2017 due to increased petroleum and natural gas sales and lower relative cash and non-cash costs.

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

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **RELATED PARTY TRANSACTIONS**

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

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

## **RISK FACTORS & RISK MANAGEMENT**

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

## **IMPACT OF NEW ENVIRONMENTAL REGULATIONS**

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

expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

## **CHANGES IN ACCOUNTING POLICIES**

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Corporation on January 1, 2018. Altura is currently assessing the impact of adopting IFRS 15, however, it anticipates that this standard will not have a material impact on the Corporation's financial statements.

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

In January 2016, the IASB issued IFRS 16 "Leases", 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 and the Corporation is currently evaluating the impact of the standard on Altura's financial statements.

## **ADVISORIES**

### **Non-GAAP Measures**

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

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

## **Oil and Gas Advisories**

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

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

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

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

## **Forward-looking Information**

This MD&A and first 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 first quarter report contains forward-looking information and statements pertaining to the 2017 capital expenditure budget, plans concerning future water disposal facilities at Leduc-Woodbend, the acquisition of additional multi-well pads at Leduc-Woodbend, expected drilling and completion cost reductions at Leduc-Woodbend, timing of the waterflood pilot program at Eyehill, planned improved recovery factors at Eyehill, and expected cost reductions at Eyehill and Leduc-Woodbend.

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

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

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

The forward-looking information and statements included in this MD&A and first 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 first quarter report speak only as of the date of this MD&A and first 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.