

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(\$000)	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Accounts receivable (note 12)	2,093	650
Prepaid expenses and deposits	232	204
Fair value of financial instruments (note 12)	363	-
	2,688	854
Exploration and evaluation (note 4)	984	-
Property and equipment (note 5)	55,827	53,169
Right-of-use assets (notes 3 and 6)	220	-
Total assets	59,719	54,023
LIABILITIES		
Current liabilities		
Bank debt (note 7)	1,465	2,144
Accounts payable and accrued liabilities	5,969	3,515
Current portion of lease liabilities (notes 3 and 8)	36	-
Current portion of decommissioning liability (note 9)	15	15
	7,485	5,674
Lease liabilities (notes 3 and 8)	211	-
Decommissioning liability (note 9)	6,453	5,756
Deferred taxes	1,319	726
Total liabilities	15,468	12,156
SHAREHOLDERS' EQUITY		
Share capital (note 10)	37,712	37,712
Performance warrants (note 10e)	2,392	2,176
Contributed surplus	4,139	3,944
Retained earnings (deficit)	8	(1,965)
Total shareholders' equity	44,251	41,867
Total liabilities and shareholders' equity	59,719	54,023

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (unaudited)

(\$000, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
REVENUE				
Petroleum and natural gas sales (note 11)	6,353	4,497	13,806	9,044
Royalties	(589)	(423)	(1,284)	(919)
Interest income	-	16	-	16
Realized gain on financial instruments	178	-	178	-
Unrealized gain on financial instruments	363	-	363	-
	6,305	4,090	13,063	8,141
EXPENSES				
Operating	1,385	1,105	2,812	2,309
Transportation	712	153	1,357	334
General and administrative	426	467	887	910
Exploration expense	-	-	21	-
Share-based compensation (note 10)	167	209	325	425
Interest and financing charges	76	80	130	135
Depletion, depreciation and amortization (notes 5 and 6)	2,274	1,525	4,911	3,263
Accretion of decommissioning liability (note 9)	26	27	54	64
	5,066	3,566	10,497	7,440
OTHER INCOME				
Gain on disposition of assets (note 5)	-	2,902	-	2,902
Income before taxes	1,239	3,426	2,566	3,603
Deferred tax expense	195	676	593	676
Net income and comprehensive income	1,044	2,750	1,973	2,927
Net income per share, (note 10d)				
Basic	0.01	0.03	0.02	0.03
Diluted	0.01	0.02	0.02	0.03

See accompanying notes to the interim condensed consolidated financial statements.

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

(\$000)	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2017	37,712	1,605	3,506	(4,658)	38,165
Share-based compensation expense (note 10)	-	269	156	-	425
Share-based compensation capitalized (note 10)	-	64	62	-	126
Net income for period	-	-	-	2,927	2,927
Balance, June 30, 2018	37,712	1,938	3,724	(1,731)	41,643
Balance, December 31, 2018	37,712	2,176	3,944	(1,965)	41,867
Share-based compensation expense (note 10)	-	183	142	-	325
Share-based compensation capitalized (note 10)	-	33	53	-	86
Net income for period	-	-	-	1,973	1,973
Balance, June 30, 2019	37,712	2,392	4,139	8	44,251

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(\$000)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES				
Net income for period	1,044	2,750	1,973	2,927
Items not involving cash:				
Deferred tax expense	195	676	593	676
Depletion, depreciation and amortization (notes 5 and 6)	2,274	1,525	4,911	3,263
Accretion of decommissioning liability (note 9)	26	27	54	64
Lease interest	3	-	6	-
Share-based compensation (note 10)	167	209	325	425
Unrealized gain on financial instruments	(363)	-	(363)	-
Gain on disposition of assets	-	(2,902)	-	(2,902)
Transaction costs on property dispositions	-	(397)	-	(397)
Change in non-cash working capital (note 14)	222	425	(1,641)	700
	3,568	2,313	5,858	4,756
CASH FLOW USED IN FINANCING ACTIVITIES				
Decrease in bank debt (note 7)	(426)	(6,381)	(679)	(4,252)
	(426)	(6,381)	(679)	(4,252)
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES				
Property and equipment expenditures	(5,381)	(6,274)	(6,834)	(13,151)
Exploration and evaluation asset expenditures	(969)	(70)	(969)	(193)
Property dispositions	-	27,712	-	27,712
Change in non-cash working capital (note 14)	3,208	2,752	2,624	5,180
	(3,142)	24,120	(5,179)	19,548
CHANGE IN CASH AND CASH EQUIVALENTS	-	20,052	-	20,052
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	20,052	-	20,052
Cash and cash equivalents consists of:				
Cash in bank account	-	5,052	-	5,052
Cash in short-term investments	-	15,000	-	15,000
		20,052	-	20,052
Cash interest paid	73	80	124	135

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

As at and for the three and six months ended June 30, 2019 and 2018

1. REPORTING ENTITY

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2018, except as described below in note 3. In the opinion of management, these financial statements contain all adjustments necessary to present fairly Altura's financial position as at June 30, 2019 and the results of its operations and cash flows for the three and six months ended June 30, 2019 and 2018. Certain information and disclosures normally included in the notes to the audited consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved by the Board of Directors on August 14, 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) Change in Presentation

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

(e) 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.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate as discussed in note 3.

In preparing the financial statements, the judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2018, except for lease liabilities.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2019, Altura adopted IFRS 16, "Leases" ("IFRS 16"). The Corporation has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Corporation's financial statements have not been restated. On adoption, Altura elected to use the following practical expedient permitted under the standard:

- Short-term leases and leases of low-value assets are not recognized on the balance sheet and lease payments are instead recognized in the financial statements as incurred.

The impacts of adoption of IFRS 16 as at January 1, 2019 was a \$241,000 increase to ROU assets with a corresponding increase to lease liabilities. The ROU assets and lease liabilities were measured at the present value of the remaining lease payments, discounted using Altura's weighted average incremental borrowing rate of 5.6 percent, as at January 1, 2019.

Reconciliation of Commitments to Lease Liabilities

The following table provides a reconciliation of the contractual obligations and commitments as at December 31, 2018 to the Corporation's lease liabilities as at January 1, 2019:

(\$000)	Total
Commitments as at December 31, 2018	894
Less:	
Non-Lease Components	(603)
Lease liabilities commitments as at December 31, 2018	291
Impact of discounting	(50)
Lease liabilities as at January 1, 2019	241

The additional disclosures required by IFRS 16 are detailed in notes 2, 6 and 8.

Leases Policy

The following accounting policy is applicable from January 1, 2019:

The Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a ROU asset and a corresponding lease liability at the date on which the leased asset is available for use by the Corporation. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not readily available.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net income over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in net income (loss) if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the commencement date.

The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in net income (loss) on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Corporation will remeasure the lease liability using the Corporation's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net income (loss) that reflects the proportionate decrease in scope.

4. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2017	4,517
Additions	719
Acquisition	603
Disposition	(1,071)
Transfer to property and equipment (note 5)	(4,768)
Balance, December 31, 2018	-
Additions	984
Balance, June 30, 2019	984

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. E&E asset additions in the three and six months ended June 30, 2019, include land costs, geological and geophysical costs and drilling costs related to a vertical stratigraphic well that was drilled and logged in a new area called Entice, south of Strathmore, Alberta. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$51,000 in the three and six months ended June 30, 2019 (June 30, 2018 – \$nil).

5. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost (\$000)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2017	62,100	48	62,148
Additions	32,830	130	32,960
Acquisitions	3,983	-	3,983
Dispositions	(47,622)	-	(47,622)
Transfers from E&E assets (note 4)	4,768	-	4,768
Change in decommissioning costs	4,145	-	4,145
Balance, December 31, 2018	60,204	178	60,382
Additions	6,901	4	6,905
Change in decommissioning costs	643	-	643
Balance, June 30, 2019	67,748	182	67,930
Depletion, depreciation and impairment			
(\$000)			
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)
Depletion, depreciation and amortization	(4,874)	(16)	(4,890)
Balance, June 30, 2019	(12,041)	(62)	(12,103)
Carry amounts			
(\$000)			
As at December 31, 2018	53,037	132	53,169
As at June 30, 2019	55,707	120	55,827

Estimated future development costs of \$93.0 million (December 31, 2018 – \$95.5 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 \$149,000 and \$289,000 in the three and six months ended June 30, 2019 (June 30, 2018 – \$202,000 and 384,000), respectively.

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets, to an unrelated third party, in east central Alberta and Saskatchewan. Consideration for the disposed assets totaled \$27,265,000 of cash, net of customary post-closing adjustments and transaction costs. The Corporation recorded a gain of \$2,902,000 on the disposition in the three and six months ended June 30, 2018.

6. RIGHT-OF-USE ASSETS

The following table reconciles Altura's ROU assets associated with its office space and office equipment:

Cost (\$000)	Total
Balance, January 1 and June 30, 2019 (note 3)	241
Depreciation (\$000)	
Balance, January 1, 2019	-
Depreciation	(21)
Balance, June 30, 2019	(21)
Carry amounts (\$000)	
As at January 1, 2019	241
As at June 30, 2019	220

7. CREDIT FACILITY

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in April 2019 based on the Corporation's December 31, 2018 reserve report and the borrowing base was increased to \$10.0 million. The Credit Facility is payable on demand and the interest rate was equal to the Lender's prime rate plus 1.75 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 including:

- the Corporation is required 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.
- the Corporation will, at all times, maintain hedging agreements covering no less than 300 bbl/d oil (Western Canadian Select) for no less than the succeeding nine-month period, on a rolling basis; and
- the Corporation will maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at June 30, 2019, the working capital ratio as defined was 1.78:1 (December 31, 2018 – 1.29:1) and the Corporation was compliant with the hedging covenant and the LLR covenant.

As at June 30, 2019, \$1.5 million (December 31, 2018 - \$2.1 million) was drawn on the Credit Facility and the Corporation had outstanding letters of credit for \$160,000 (December 31, 2018 - \$160,000). The next review date for the Credit Facility has been scheduled for May 31, 2020 but may be set at an earlier or later date at the sole discretion of the Lender.

8. LEASE LIABILITIES

Altura has the following future commitments associated with its office space and office equipment obligations:

(\$000)	As at June 30, 2019
Less than one year	12
2020	48
2021–2022	111
2023–2024	119
Total lease payments	290
Impact of discounting	(43)
Lease liabilities	247
Payments due within one year	36
Payments due beyond one year	211

9. 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 June 30, 2019 to be approximately \$6.0 million (December 31, 2018 – \$5.9 million) with the majority of costs anticipated to be incurred between 2030 and 2036. A risk-free discount rate of 1.7 percent (December 31, 2018 – 2.2 percent) and an inflation rate of 2.0 percent (December 31, 2018 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Six months ended June 30, 2019	Year ended December 31, 2018
Balance, beginning of period	5,771	6,578
Additions	205	923
Liabilities disposed	-	(6,099)
Liabilities acquired	-	1,055
Change in estimates ⁽¹⁾	438	800
Revaluation of liabilities acquired ⁽²⁾	-	2,422
Decommissioning liabilities settled	-	(17)
Accretion	54	109
Balance, end of period	6,468	5,771
Expected to be incurred within one year	15	15
Expected to be incurred beyond one year	6,453	5,756

(1) The change in estimates consists of a change in the risk-free discount rate of \$480,000 (December 31, 2018 - \$153,000) and a change in abandonment and remediation cost estimates and future abandonment dates totaling a credit of \$42,000 (December 31, 2018 - \$647,000).

(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%.

10. 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, 2017, December 31, 2018, and June 30, 2019	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 June 30, 2019 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the three and six months ended June 30, 2019 and 2018.

A summary of the Corporation's outstanding stock options at June 30, 2019 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2017	7,210,000	0.33
Granted	1,180,000	0.38
Balance, December 31, 2018	8,390,000	0.34
Granted	1,380,000	0.42
Balance, June 30, 2019	9,770,000	0.35

The range of exercise prices for stock options outstanding and exercisable under the plan at June 30, 2019 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	0.425	9,770,000	2.8	0.35	5,526,669	1.9	0.33
		9,770,000	2.8	0.35	5,526,669	1.9	0.33

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Weighted average fair value of options granted (\$)	0.22	-	0.23	-
Risk-free interest rate (%)	1.34	-	1.43	-
Expected life (years)	3.5	-	3.5	-
Expected volatility (%)	75.1	-	78.1	-
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 three and six months ended June 30, 2019 was \$116,000 and \$195,000 (June 30, 2018 – \$110,000 and \$218,000) of which \$36,000 and \$53,000 was capitalized (June 30, 2018 – \$33,000 and \$62,000), respectively.

(d) Weighted average common shares:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Basic	108,920,973	108,920,973	108,920,973	108,920,973
Diluted	110,503,267	110,545,804	110,466,137	109,946,718

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

For the three and six months ended June 30, 2019, 4,200,000 stock options and 9,749,879 performance warrants were excluded from the weighted average number of common shares as they were anti-dilutive (June 30, 2018 – 1,640,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at June 30, 2019 is presented below:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2017, December 31, 2018, and June 30, 2019	9,749,879	0.449

The performance warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding \$0.675, an additional one-third upon the trading price equaling or exceeding \$0.901 and a final one-third upon the trading price equaling or exceeding \$1.124. The performance warrants expire on July 31, and August 28, 2020. As at June 30, 2019 no performance warrants are exercisable. On the grant date, the weighted average fair value of \$0.27 per performance warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based compensation relating to performance warrants for the three and six months ended June 30, 2019 was \$108,000 and \$216,000 (June 30, 2018 – \$167,000 and \$333,000) of which \$12,000 and \$33,000 was capitalized (June 30, 2018 – \$35,000 and \$64,000), respectively. The fair value of the performance warrants is being expensed over the expected life.

11. REVENUE

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

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

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

(\$000)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Heavy oil	5,812	2,561	12,341	4,806
Medium oil	-	1,669	300	3,546
Natural gas	346	158	812	416
Natural gas liquids	195	109	353	276
Petroleum and natural gas sales	6,353	4,497	13,806	9,044

As at June 30, 2019, receivables from contracts with customers were \$1.6 million, which are included in accounts receivable (\$0.7 million at June 30, 2018).

12. FINANCIAL INSTRUMENTS

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, financial instrument counterparties 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, accounts receivable and the fair value of financial instrument assets.

The majority of the credit exposure on accounts receivable at June 30, 2019, pertains to revenue for accrued June 2019 production volumes. Altura primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. A significant portion of Altura's accounts receivable is carried by three marketing companies and one joint interest partner with sound financial positioning. At June 30, 2019, 40 percent, 15 percent, 14 percent and 12 percent of total outstanding accounts receivable pertains to these companies. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at June 30, 2019. For the six months ended June 30, 2019, the Corporation received approximately 39 percent, 22 percent, 15 percent, and nine percent of its revenue from four marketing companies (June 30, 2018 – 37 percent, 21 percent and 15 percent of its revenue from three marketing companies).

At June 30, 2019, the Corporation's trade receivables have been aged as follows:

As at (\$000)	June 30, 2019	December 31, 2018
Current	1,966	263
31 – 60 days	-	151
61 – 90 days	88	47
> 90 days	39	189
Allowance for doubtful accounts	-	-
Total	2,093	650

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 a joint interest partner and are considered collectible.

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.

Altura manages the risks associated with changes in commodity prices by entering into risk management contracts. At June 30, 2019, Altura held the following crude oil contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at June 30, 2019 (\$000)
Jul 1/19—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00	498
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20	(81)
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)	(54)
						363

At June 30, 2019, the crude oil contracts were fair valued with an asset of \$363,000 (December 31, 2018 - \$nil) recorded on the balance sheet.

13. 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 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 second quarters of 2019 and 2018 is calculated as follows:

(\$000)	Three months ended June 30	
	2019	2018
Net income	1,044	2,750
Adjusted for the following non-cash items		
Deferred tax expense	195	676
Depletion, depreciation and amortization	2,274	1,525
Accretion of decommissioning liability	26	27
Share-based compensation	167	209
Gain on disposition of assets	-	(2,902)
Lease interest	3	-
Unrealized gain on financial instruments	(363)	-
Quarterly adjusted funds flow	3,346	2,285
Annualized adjusted funds flow	13,384	9,140

Net Debt

Management views net debt as a key industry benchmark and measure to assess the Corporation's financial position and liquidity.

Net debt is calculated as current assets less current liabilities, excluding the fair value of financial instruments, the current portion of lease liabilities and the current portion of the decommissioning liability. Management has excluded the current portion of the decommissioning liability as this is an estimate based on management's assumptions and subject to volatility based on changes in cost and timing estimates, the risk-free discount rate and inflation rate. Net debt is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to similarly titled measures of other companies where similar terminology is used.

Net debt as at June 30, 2019 and 2018 is summarized as follows:

(\$000)	June 30, 2019	June 30, 2018
Current assets	(2,688)	(21,133)
Current liabilities	7,485	6,372
Working capital deficit (surplus)	4,797	(14,761)
Fair value of financial instruments	363	-
Current portion of lease liabilities	(36)	-
Current portion of decommissioning liability	(15)	-
Net debt/(working capital surplus)	5,109	(14,761)

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, 1:1 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 0.4:1 at June 30, 2019.

	June 30, 2019	June 30, 2018
Net debt/(working capital surplus) (\$000)	5,109	(14,761)
Annualized adjusted funds flow (\$000)	13,384	9,140
Net debt to annualized adjusted funds flow (times) ⁽¹⁾	0.4	-

(1) Net debt to annualized funds flow at June 30, 2018 was nil as Altura had a working capital surplus.

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 2019.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Provided by (used in):				
Accounts receivable	880	1,017	(1,443)	1,381
Prepaid expenses and deposits	(26)	(31)	(28)	(61)
Accounts payable and accrued liabilities	2,576	2,191	2,454	4,560
	3,430	3,177	983	5,880
Provided by (used in):				
Operating activities	222	425	(1,641)	700
Investing activities	3,208	2,752	2,624	5,180
	3,430	3,177	983	5,880