

## 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 13, 2019 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, 2019, the audited consolidated financial statements and related notes for the year ended December 31, 2018, as well as the Corporation's Annual Information Form that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, in Canadian dollars, except where indicated otherwise.

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

### DESCRIPTION OF BUSINESS

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

### ECONOMIC ENVIRONMENT

Global crude oil prices were lower in the first quarter of 2019, with the West Texas Intermediate ("WTI") benchmark price averaging seven percent lower than the fourth quarter of 2018 and 13 percent lower than the first quarter of 2018. However, WTI prices trended higher from January 1, 2019 to March 31, 2019.

In the Canadian crude oil market, the Alberta government introduced mandatory production curtailment to balance the market and reduce Canadian crude oil differentials. The curtailment commenced in January 2019 and Canadian oil differentials immediately narrowed. The differential between WTI and Western Canadian Select oil price ("WCS") in the first quarter of 2019, averaged US\$12.29 per barrel, 69 percent lower than the fourth quarter of 2018 and 49 percent lower relative to the first quarter of 2018. The net effect of the reduction in oil differentials was to increase Canadian crude oil prices significantly in the first quarter of 2019 compared to the fourth quarter of 2018.

Altura primarily compares its oil price to the WCS oil price at Hardisty, which increased 123 percent in the first quarter of 2019 relative to the fourth quarter of 2018 and increased 16 percent relative to the first quarter of 2018.

### 2019 GUIDANCE

Altura's 2019 guidance is consistent with previous guidance provided on March 5, 2019. The following table summarizes the Corporation's 2019 guidance compared to 2019 year-to-date results.

	2019 Guidance	2019 YTD Actual
2019 Capital expenditures (\$000)	15,000	1,453
2019 Average production volumes (Boe/d)	1,700–1,800	1,939

Altura's capital program is weighted to the second and third quarters of 2019. Management expects full-year 2019 results to approximate guidance for both capital expenditures and average production volumes.

## RESULTS OF OPERATIONS

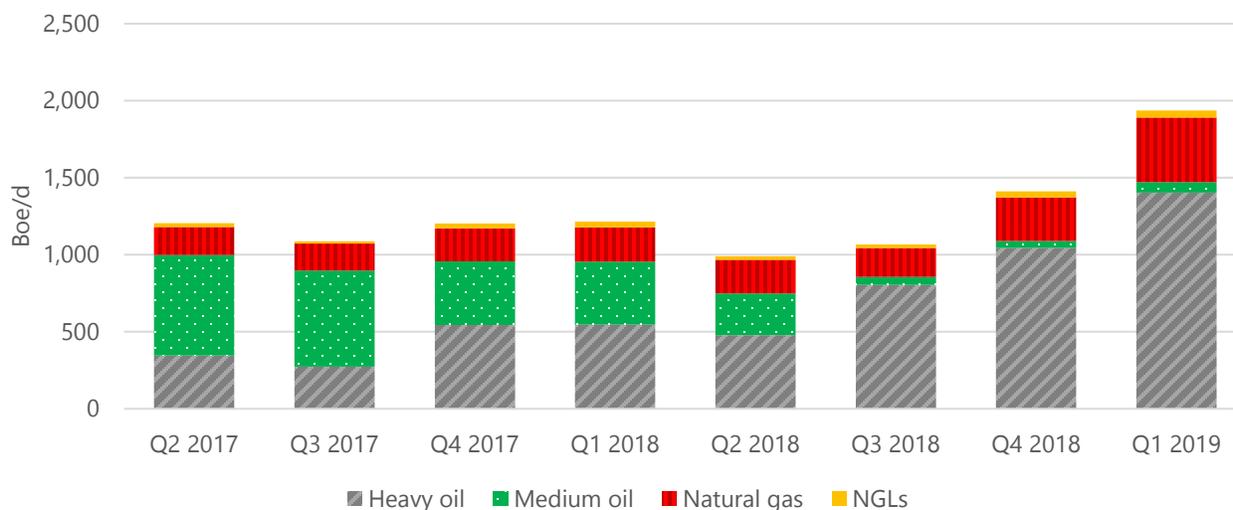
### Production

	Three months ended March 31		
	2019	2018	% Change
Heavy oil (Bbls/d)	1,404	547	157
Medium oil (Bbls/d)	68	408	(83)
Natural gas (Mcf/d)	2,510	1,336	88
Natural gas liquids ("NGLs") (Bbls/d)	47	37	27
Total (Boe/d)	1,939	1,215	60
Oil and natural gas liquids % of production	78%	82%	(5)

In mid-November 2018, Altura voluntarily curtailed production volumes in response to weak Canadian oil prices caused by wide Canadian oil differentials. The Canadian oil differentials narrowed significantly in 2019 and Altura brought the curtailed production back on line at the beginning of January 2019.

During the first quarter of 2019, daily production volumes increased 60 percent compared to the first quarter of 2018. This was mainly due to increased production from the Leduc-Woodbend area following drilling and completions activity in 2018, partially offset by the disposition of Altura's east central Alberta and Saskatchewan assets on May 31, 2018 (the "Provost Disposition"). The 83 percent decline in medium oil production is related to the Provost Disposition, partially offset by two property acquisitions in the second half of 2018. The last well of Altura's 2018 summer drilling program was equipped for production in January 2019 and commenced production on February 4, 2019.

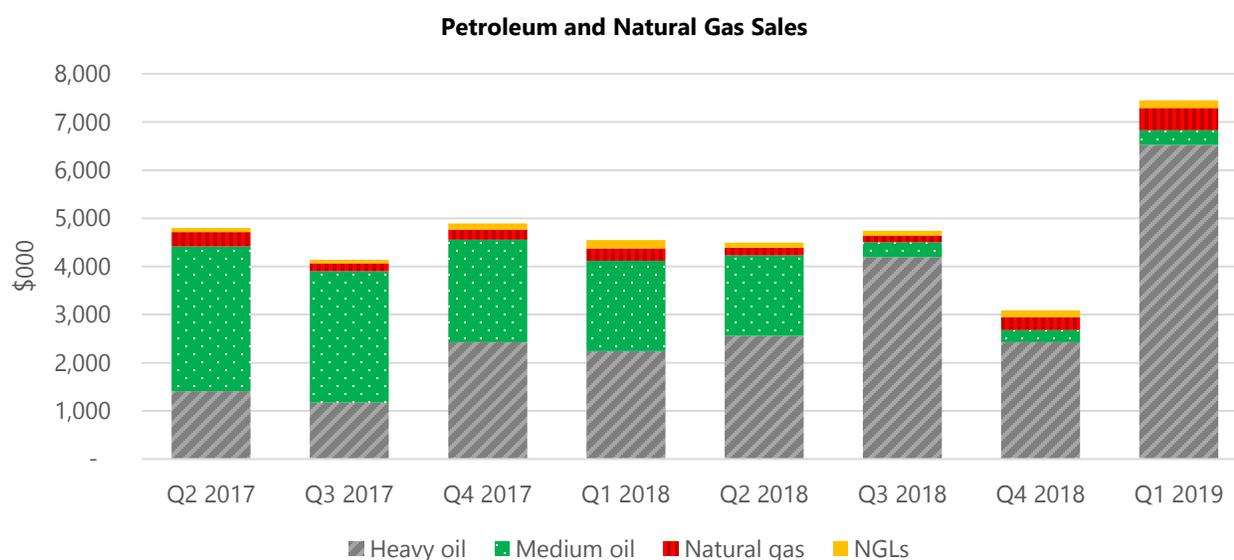
Quarterly Average Daily Production



## Petroleum and Natural Gas Sales

(\$000)	Three months ended March 31		
	2019	2018	% Change
Heavy oil	6,529	2,245	191
Medium oil	300	1,877	(84)
Natural gas	466	258	(81)
Natural gas liquids	158	167	(5)
Petroleum and natural gas sales	7,453	4,547	64

Petroleum and natural gas sales for the first quarter of 2019 increased 64 percent to \$7,453,000 compared to \$4,547,000 in the first quarter of 2018. The quarter-over-quarter increase of \$2,906,000 consists of \$2,231,000 attributed to increased production volumes and \$675,000 due to increased realized crude oil prices.



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

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal crude oil benchmarks that Altura compares its oil price to are the 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.

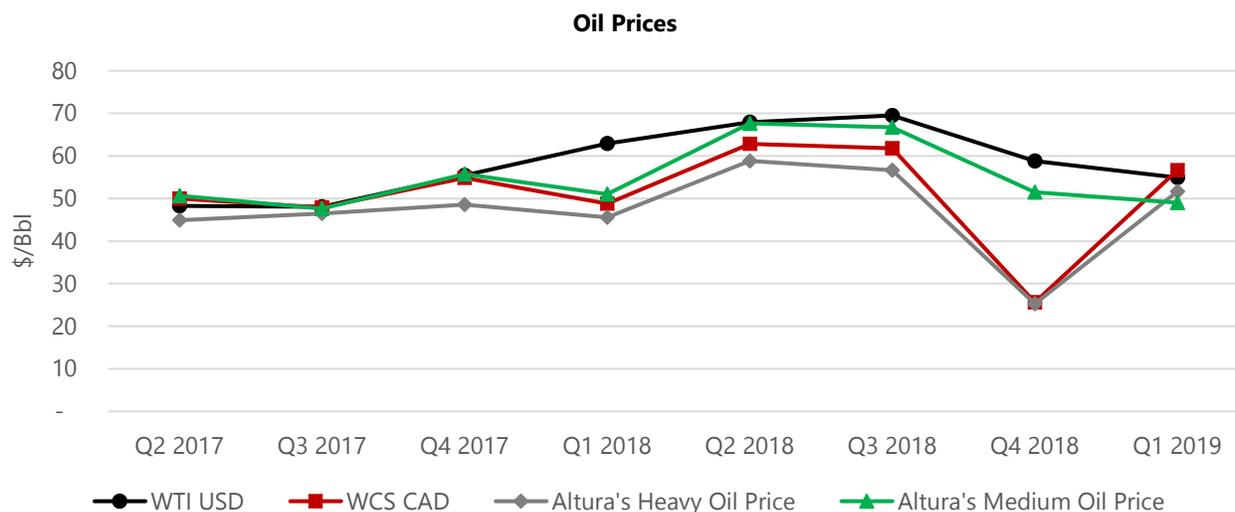
The following table outlines the Corporation's benchmark and realized petroleum and natural gas prices:

	Three months ended March 31		
	2019	2018	% Change
<b>Average Benchmark Prices</b>			
WTI crude oil (US\$/Bbl) <sup>(1)</sup>	<b>54.90</b>	62.87	(13)
WCS differential (US\$/Bbl) <sup>(2)</sup>	<b>(12.29)</b>	(24.28)	(49)
US\$/Cdn\$ exchange rate	<b>0.752</b>	0.791	(5)
WCS (Cdn\$/Bbl)	<b>56.65</b>	48.77	16
AECO daily spot (\$/GJ)	<b>2.49</b>	1.97	26
<b>Average Realized Prices</b>			
Heavy oil (\$/Bbl)	<b>51.62</b>	45.58	13
Medium oil (\$/Bbl)	<b>48.97</b>	51.06	(4)
Natural gas (\$/Mcf)	<b>2.06</b>	2.14	(4)
Natural gas liquids (\$/Bbl)	<b>37.16</b>	50.44	(26)
Average realized price (\$/Boe)	<b>42.71</b>	41.58	3

(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 first quarter of 2019 with the first quarter of 2018, WTI decreased 13 percent, the realized medium oil price decreased four percent, but Altura's realized heavy oil price increased 13 percent. The impact of lower WTI prices was offset by the narrowing differential between WTI and WCS to an average discount of US\$12.29 per barrel compared to US\$24.28 per barrel in the first quarter of 2018. In response to the extremely wide Canadian oil differentials in the fourth quarter of 2018, 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 tightened significantly.



In the first quarter of 2019, Altura's realized natural gas price decreased by four percent to \$2.06 per Mcf from the first quarter of 2018 while the AECO daily spot price increased 26 percent to \$2.49 per GJ compared to the first quarter of 2018. The decreased realized natural gas price in the first quarter of 2019 is due to a gas balance recovery on the NOVA pipeline, negatively impacting Altura in February and March 2019.

## Risk Management Contracts

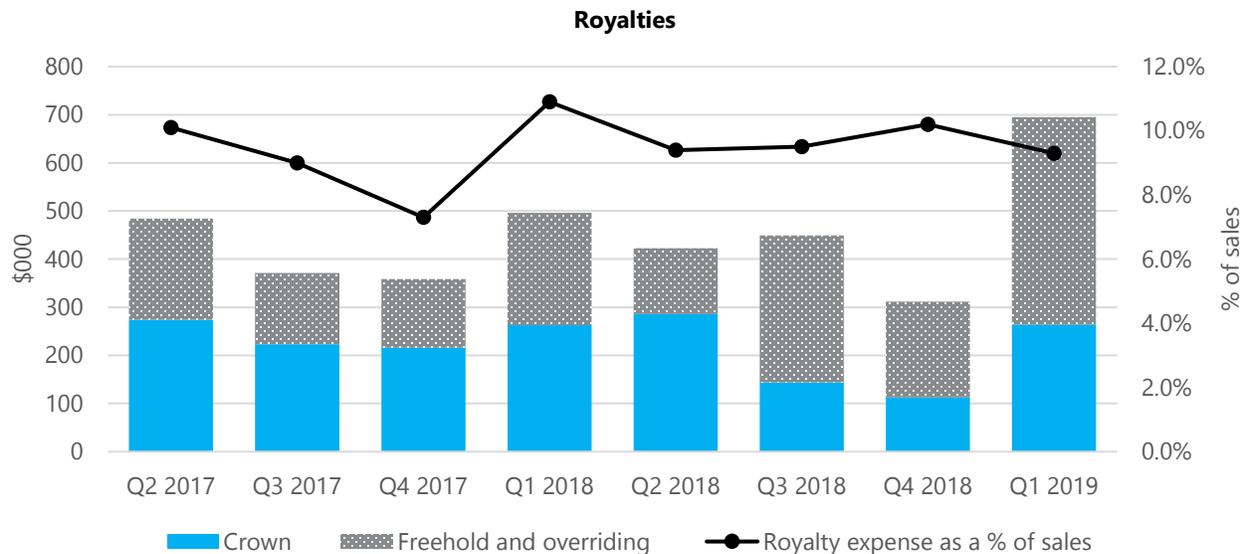
The Corporation had no risk management contracts for the first quarter of 2019. Subsequent to March 31, 2019, Altura entered into the following crude oil contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
May 2019	Crude Oil	Fixed	300 Bbls/d	WTI- NYMEX	CAD \$87.00
June 2019	Crude Oil	Fixed	300 Bbls/d	WCS	CAD \$70.00
July 1/19—March 31/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD \$57.00

## Royalties

(\$'000, except % and per Boe)	Three months ended March 31		
	2019	2018	% Change
Crown royalties	264	263	-
Freehold and overriding royalties	431	233	85
Royalty expense	695	496	40
Royalty expense as a % of sales	9.3%	10.9%	(15)
Royalty expense per Boe	3.98	4.54	(12)

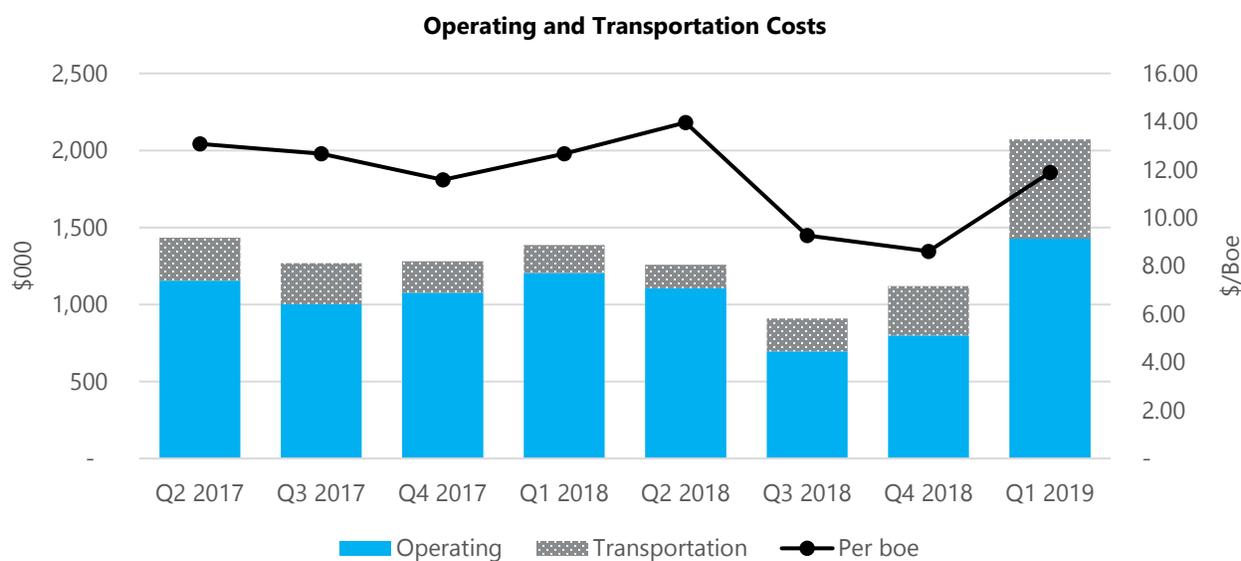
Total royalties for the first quarter of 2019 were \$695,000 compared to \$496,000 in the first quarter of 2018. Total royalties as a percentage of petroleum and natural gas sales decreased from 10.9 percent (\$4.54 per Boe) in the first quarter of 2018 to 9.3 percent (\$3.98 per Boe) in the first quarter of 2019. The decrease in royalty expense as a percentage of sales is due to the first quarter of 2018 having higher freehold mineral tax expenses relative to petroleum and natural gas sales.



## Operating and Transportation Costs

(\$000, except per Boe)	Three months ended March 31		
	2019	2018	% Change
Operating	1,427	1,204	19
Transportation	645	181	256
Operating and transportation	2,072	1,385	50
Operating per Boe	8.18	11.01	(26)
Transportation per Boe	3.70	1.65	124
Operating and transportation per Boe	11.88	12.66	(6)

Operating and transportation costs increased by \$687,000 in the first quarter of 2019 to \$2,072,000 as compared to the first quarter of 2018. Operating costs decreased \$2.83 per Boe to \$8.18 per Boe in the first quarter of 2019 compared to \$11.01 per Boe in the first quarter of 2018. The decrease is mainly due to Altura's growth of lower cost production at Leduc-Woodbend, completion of the Leduc-Woodbend multi-well battery that enables the Corporation to treat emulsion and dispose water on site and the sale of the Provost Disposition that had higher average operating costs. Transportation costs increased \$2.05 per Boe to \$3.70 per Boe due to increased clean oil hauling, which is recorded to transportation costs, offset by decreased emulsion hauling, which included a percentage of water that required treating and was recorded to operating costs.



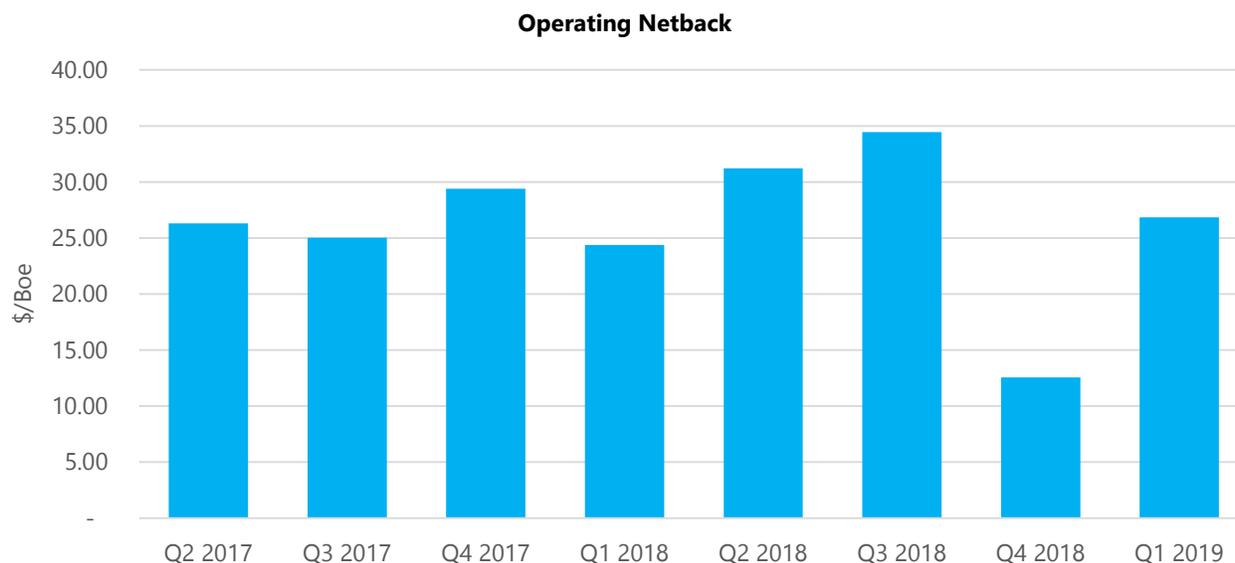
Operating and transportation costs increased \$3.27 per Boe to \$11.88 per Boe in the first quarter of 2019 compared to \$8.61 per Boe in the fourth quarter of 2018. Transportation costs increased \$1.25 per Boe from the fourth quarter of 2018 due to increased clean oil hauling associated with longer hauls to sales terminals in eastern Alberta to maximize crude oil prices. Operating costs increased \$2.02 per Boe from the fourth quarter of 2018 due mainly to increased repairs and maintenance activity resulting from reactivating curtailed production in the fourth quarter of 2018, additional property taxes and increased gas processing fees.

## Operating Netback

(\$/Boe)	Three months ended March 31		
	2019	2018	% Change
Average realized sales price	<b>42.71</b>	41.58	3
Royalties	<b>(3.98)</b>	(4.54)	(12)
Operating	<b>(8.18)</b>	(11.01)	(26)
Transportation	<b>(3.70)</b>	(1.65)	124
<b>Operating netback<sup>(1)</sup></b>	<b>26.85</b>	24.38	10

(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 \$26.85 per Boe in the first quarter of 2019 compared to \$24.38 per Boe in the first quarter of 2018. The increase is a result of higher average realized sales prices and lower per unit royalties and operating costs, partially offset by increased transportation costs.



Altura's operating netback increased by \$14.29 per Boe to \$26.85 per Boe in the first quarter of 2019 from \$12.56 per Boe in the fourth quarter of 2018 due mainly to a recovery in the average realized sales price from narrowing Canadian oil differentials, as discussed in the Economic Environment section of this MD&A.

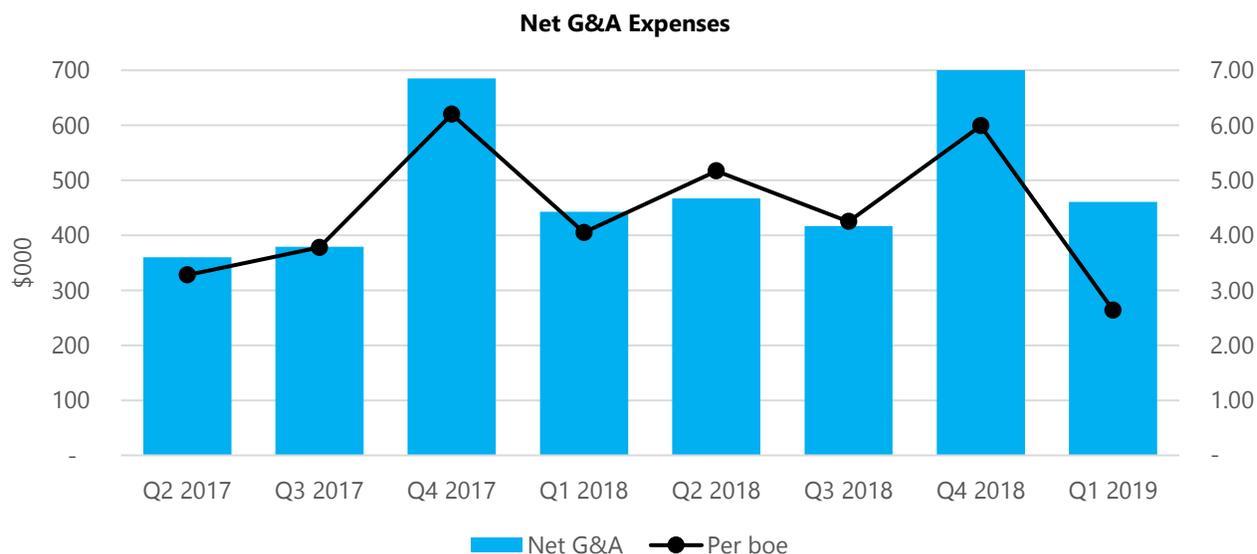
## General and Administrative ("G&A") Expenses

(\$000, except per Boe)	Three months ended March 31		
	2019	2018	% Change
Gross G&A	593	572	4
Capitalized G&A and overhead recoveries	(132)	(129)	2
Net G&A expenses	461	443	4
Net G&A per Boe	2.64	4.05	(35)

Net G&A expenses totaled \$461,000 for the first quarter of 2019, compared to \$443,000 for the first quarter of 2018. The increase is primarily related to increased salaries and benefits, professional services, and computer services and software associated with the Corporation's growth.

Net G&A expenses decreased 35 percent to \$2.64 per Boe for the first quarter of 2019 compared to the first quarter of 2018 due to increased 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 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 March 31		
	2019	2018	% Change
Exploration expense	21	-	-
Exploration expense per Boe	0.12	-	-

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in the first quarter of 2019 relate to geophysical consulting incurred by the Corporation to evaluate Crown land sales and freehold lands available for leasing.

## Interest and Financing Expenses

(\$000, except per Boe)	Three months ended March 31		
	2019	2018	% Change
Credit facility interest and financing expenses	51	55	(7)
Lease interest (non-cash)	3	-	-
Interest and financing expenses	54	55	(2)
Credit facility interest and financing expenses per Boe	0.29	0.51	(43)

Interest and financing expenses totaled \$54,000 in the first quarter of 2019 and are consistent with the \$55,000 incurred in the first quarter of 2018. Altura's average interest rate on its credit facility for the first quarter of 2019 was 5.5 percent as compared to 4.9 percent in the first quarter of 2018.

## Share-Based Compensation

(\$000)	Three months ended March 31		
	2019	2018	% Change
Share-based compensation	187	274	(32)
Capitalized share-based compensation	(29)	(58)	(50)
Share-based compensation expense	158	216	(27)

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 \$158,000 for the first quarter of 2019 compared to \$216,000 for the first quarter of 2018. The quarter-over-quarter decrease reflects a decrease in performance warrant expense due to one-third of the total performance warrants being fully expensed in July 2018 and decreased stock option expense due to Altura's 2015 option grant being fully expensed in November 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")

(\$000, except per Boe)	Three months ended March 31		
	2019	2018	% Change
DD&A	2,637	1,738	52
DD&A per Boe	15.11	15.89	(5)

Altura uses proved and probable reserves to calculate DD&A expense. For the first quarter of 2019, DD&A increased 52 percent to \$2,637,000 compared to \$1,738,000 in the first quarter of 2018. On a per unit basis, DD&A decreased five percent to \$15.11 per Boe compared to \$15.89 per Boe in the first quarter of 2018. The decreased DD&A per Boe in the first quarter reflects an increase in the Corporation's proved and probable reserves at a lower finding and development cost than the aggregate amount in the first quarter of 2018.

## 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 March 31, 2019, 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 was recorded on Altura's D&P assets for the first quarter of 2019.

### Deferred Taxes

The Corporation recognized a deferred tax expense of \$398,000 in the first quarter of 2019, compared to nil in the first quarter of 2018. The increase is a result of increased income before taxes in the first quarter of 2019 compared to the first quarter of 2018 and reversal of the Corporation's unrecognized deferred tax asset associated with the Provost Disposition.

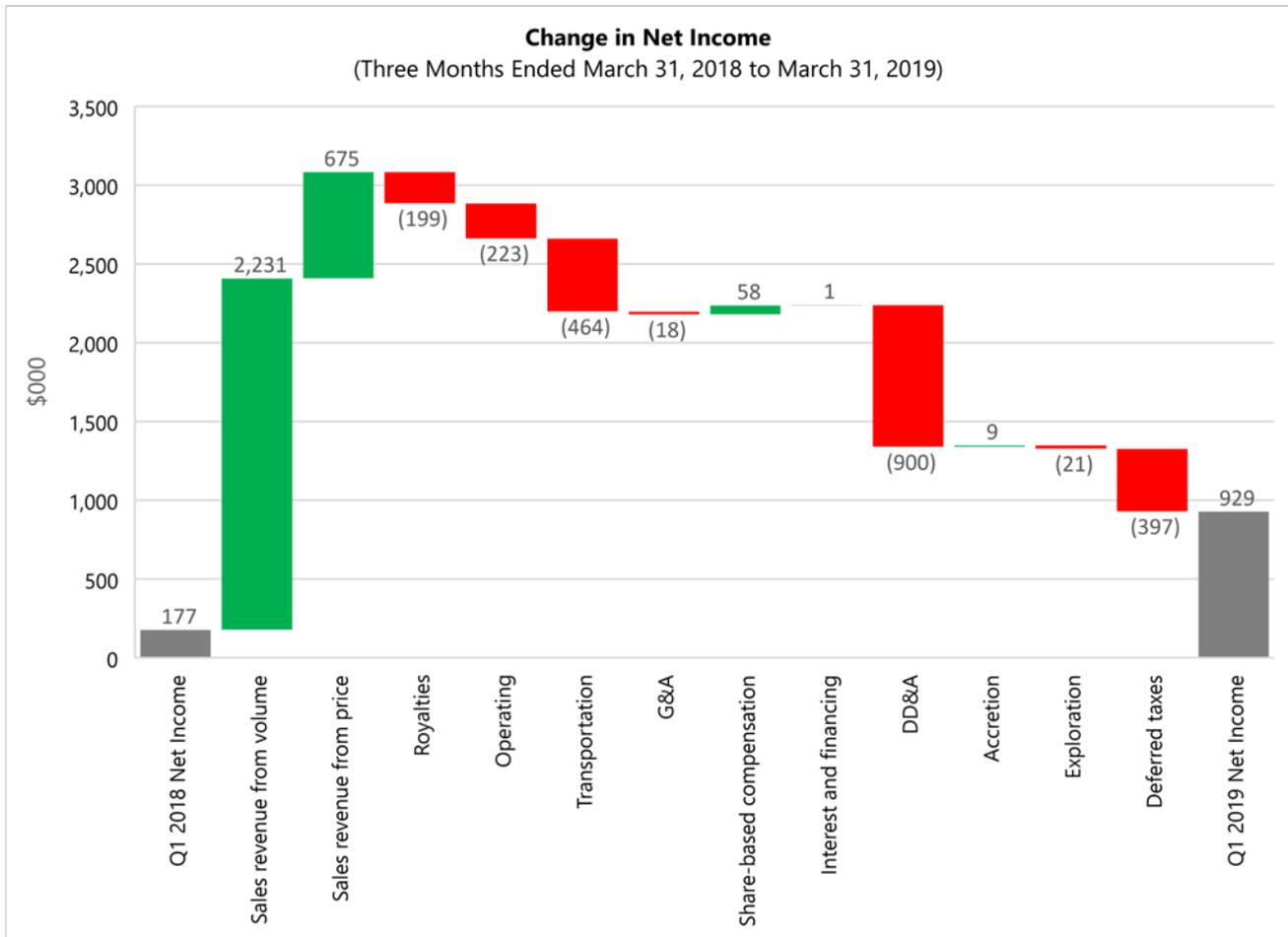
### Net Income and Adjusted Funds Flow

(\$000, except per share amounts and per Boe)	Three months ended March 31		
	2019	2018	% Change
Net income	<b>929</b>	177	425
Per share – diluted	<b>0.01</b>	-	-
Adjusted funds flow <sup>(1)</sup>	<b>4,153</b>	2,168	91
Per share – diluted <sup>(1)</sup>	<b>0.04</b>	0.02	100
Adjusted funds flow per Boe <sup>(1)</sup>	<b>23.80</b>	19.82	20

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

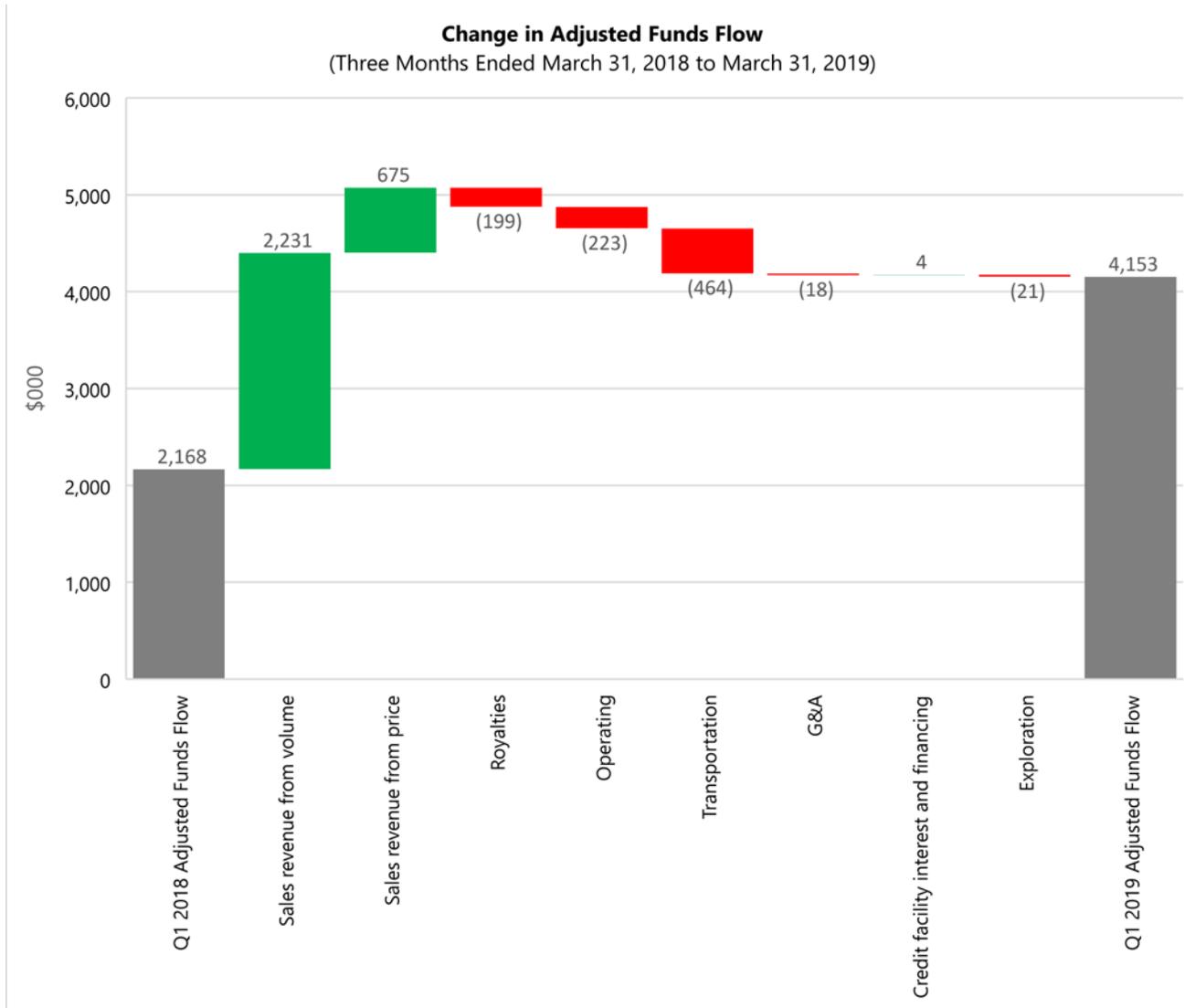
Net Income

In the first quarter of 2019, net income increased by \$752,000 to \$929,000 compared to \$177,000 in the first quarter of 2018. The increased net income primarily reflects increased sales revenue from production volumes and increased crude oil prices, partially offset by increased royalties, operating costs, transportation costs, DD&A and deferred tax expense.



Adjusted Funds Flow

In the first quarter of 2019, adjusted funds flow increased by \$1,985,000 to \$4,153,000 compared to \$2,168,000 in the first quarter of 2018. The increase primarily reflects increased sales revenue from production volumes and increased crude oil prices, partially offset by increased royalties, operating costs, and transportation costs.



## Capital Expenditures

(\$000)	Three months ended March 31		
	2019	2018	% Change
Geological and geophysical	10	3	233
Land	38	123	(69)
Drilling and completions	(9)	3,987	(100)
Workovers	492	324	52
Equipping and tie-in	211	363	(42)
Facilities and pipelines	588	2,416	(76)
Other	123	129	(5)
<b>Total capital expenditures</b>	<b>1,453</b>	<b>7,345</b>	<b>(80)</b>

In the first quarter of 2019, Altura invested \$1.5 million on capital expenditures at Leduc-Woodbend. The last well of Altura's 2018 summer drilling program, which was drilled and completed in 2018, was equipped for production in January 2019. Facilities costs of \$0.6 million included an electrification project at Altura's multi-well battery and associated pad sites, pipeline costs and initial costs related to a solution gas compressor installation that was completed in May 2019. Workover costs totaled \$0.5 million and included design modifications on certain wells to improve runtime.

## Decommissioning Liability

At December 31, 2018, Altura's decommissioning liability was \$6.1 million (December 31, 2018 - \$5.8 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 1.9 percent (December 31, 2018 - 2.2 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 a revision of the risk-free discount rate and accretion expense.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the first quarter of 2019, accretion expense totaled \$28,000 (March 31, 2018 - \$37,000).

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 8.60 at May 4, 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. Additionally, Altura's revolving operating demand loan was amended in April 2019 to include a covenant requiring the Corporation to maintain an LMR in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

## CAPITAL RESOURCES AND LIQUIDITY

### Working Capital

The Corporation had a working capital deficit of \$2.1 million at March 31, 2019 compared to a working capital deficit of \$4.8 million at December 31, 2018. At March 31, 2019, the major components of Altura's current assets were accounts receivable (84 percent) to be received from its oil and gas marketers in respect to March 2019 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 (34 percent) and accrued liabilities (28 percent) related to the Corporation's operations and bank debt (36 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

As at March 31, 2019, the Corporation had a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender") with a maximum borrowing limit of \$6.0 million. The Credit Facility is payable on demand and the interest rate was 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 added to current assets. As at March 31, 2019, the working capital ratio under the terms of the Credit Facility was calculated to be 2.08:1 (December 31, 2018 – 1.29:1).

As at March 31, 2019, \$1.9 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).

Altura's Credit Facility was reviewed in April 2019 and the maximum borrowing limit was increased to \$10.0 million. The interest rate on the Credit Facility was increased to the Lender's prime rate plus 1.75 percent per annum, with a parallel increase in the fee for Letters of Credit issued under the Credit Facility to 2.25 percent (from 2.00 percent). Further to the working capital ratio described above, the Credit Facility was amended to include additional covenants to be observed by the Corporation, including:

- a hedging covenant that Altura shall, from May 1, 2019 onwards, 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 in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

At May 13, 2019 the Corporation was compliant with the additional covenants. 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.

## Shareholders' Equity

At March 31, 2019 there were 108,920,973 common shares outstanding, 9,749,879 performance warrants outstanding and 9,570,000 stock options outstanding. The number of common shares and performance warrants remain unchanged from December 31, 2018.

At May 13, 2019 the number of common shares, performance warrants and stock options outstanding remain unchanged from March 31, 2019.

## Liquidity

(\$000)	March 31, 2019	December 31, 2018
Current assets	3,179	854
Current liabilities	(5,324)	(5,674)
Working capital deficit <sup>(1)</sup>	(2,145)	(4,820)
Credit Facility capacity <sup>(2)</sup>	5,840	5,840
Available funding	3,695	1,020

(1) Working capital deficit 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 March 31, 2019, \$160,000 in letters of credit were issued and outstanding (December 31, 2018 - \$160,000).

At March 31, 2019, Altura had \$3.7 million of available funding capacity from its Credit Facility (December 31, 2018 - \$1.0 million).

## Net debt

Net debt as at March 31, 2019 and December 31, 2018 is calculated as follows:

(\$000)	March 31, 2019	December 31, 2018
Working capital deficit <sup>(1)</sup>	2,145	4,820
Current portion of lease liabilities	(25)	-
Current portion of decommissioning liability	(15)	(15)
Net debt <sup>(1)</sup>	2,105	4,805
Net debt to annualized adjusted funds flow <sup>(1)(2)</sup>	0.1	1.5

(1) Working capital deficit, net debt and adjusted funds flow 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) Refer to Note 12 "Capital Management" in the financial statements regarding net debt to annualized adjusted funds flow.

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. Altura's net debt decreased to \$2.1 million as at March 31, 2019 from \$4.8 million at December 31, 2018 from adjusted funds flow exceeding capital expenditures in the first quarter of 2019. The decrease in net debt combined with increased adjusted funds flow, resulted in net debt to annualized adjusted funds flow improving to 0.1 times at March 31, 2019 compared to 1.5 times at December 31, 2018.

## Capital Resources

The Corporation provided its 2019 capital expenditure budget of \$15 million on March 5, 2019. The capital program is weighted to the second half of 2019 and includes drilling four extended reach horizontal wells at Leduc-Woodbend. Additionally, Altura plans to implement a waterflood pilot project at Leduc-Woodbend. An existing horizontal well is planned to be converted to a water injector and two of the four wells are expected to be drilled offsetting the injector at 200 meter inter-well spacing compared to the existing 400 meter spacing. Altura expects to have the liquidity to fund the capital program 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.

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2019				2018			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>OPERATING</b>								
Average daily production								
Heavy oil (Bbls/d)	<b>1,404</b>	1,044	805	478	547	544	274	346
Medium oil (Bbls/d)	<b>68</b>	46	51	271	408	414	624	652
Natural gas (Mcf/d)	<b>2,510</b>	1,699	1,128	1,309	1,336	1,286	1,045	1,098
NGLs (Bbls/d)	<b>47</b>	38	23	23	37	30	16	25
Total (Boe/d)	<b>1,939</b>	1,412	1,067	991	1,215	1,202	1,088	1,205
Average realized sales price								
Heavy oil (\$/Bbl)	<b>51.62</b>	25.28	56.59	58.83	45.58	48.54	46.50	44.90
Medium oil (\$/Bbl)	<b>48.97</b>	51.44	66.74	67.64	51.06	55.73	47.61	50.64
Natural gas (\$/Mcf)	<b>2.06</b>	1.74	1.23	1.32	2.14	1.81	1.71	3.03
NGLs (\$/Bbl)	<b>37.16</b>	40.19	51.30	51.68	50.44	45.46	49.54	36.44
Total (\$/Boe)	<b>42.71</b>	23.57	48.29	49.87	41.58	44.22	41.38	43.77
(\$/Boe)								
Petroleum and natural gas sales	<b>42.71</b>	23.57	48.29	49.87	41.58	44.22	41.38	43.77
Royalty expenses	<b>(3.98)</b>	(2.40)	(4.57)	(4.69)	(4.54)	(3.24)	(3.70)	(4.41)
Operating costs	<b>(8.18)</b>	(6.16)	(7.09)	(12.26)	(11.01)	(9.72)	(10.01)	(10.52)
Transportation costs	<b>(3.70)</b>	(2.45)	(2.17)	(1.70)	(1.65)	(1.86)	(2.65)	(2.55)
Operating netback <sup>(1)</sup>	<b>26.85</b>	12.56	34.46	31.22	24.38	29.40	25.02	26.29
General and administrative	<b>(2.64)</b>	(5.99)	(4.25)	(5.17)	(4.05)	(6.20)	(3.78)	(3.28)
Exploration expense	<b>(0.12)</b>	(0.04)	(0.21)	-	-	-	-	-
Credit facility interest and financing expense	<b>(0.29)</b>	(0.18)	(0.03)	(0.88)	(0.51)	(0.38)	(0.06)	(0.27)
Interest income	-	-	0.34	0.18	-	-	-	0.03
Adjusted funds flow per Boe <sup>(1)</sup>	<b>23.80</b>	6.35	30.31	25.35	19.82	22.82	21.18	22.77
<b>FINANCIAL</b> (\$000, except per share)								
Petroleum and natural gas sales	<b>7,453</b>	3,062	4,741	4,497	4,547	4,893	4,143	4,800
Adjusted funds flow <sup>(1)</sup>	<b>4,153</b>	826	2,977	2,285	2,168	2,526	2,119	2,496
Per share – diluted <sup>(1)</sup>	<b>0.04</b>	0.01	0.03	0.02	0.02	0.02	0.02	0.02
Cash flow from operating activities	<b>2,290</b>	4,200	831	2,313	2,443	1,940	2,545	2,269
Per share – diluted	<b>0.02</b>	0.04	0.01	0.02	0.02	0.02	0.02	0.02
Net income (loss)	<b>929</b>	(984)	750	2,750	177	(1,032)	322	594
Per share – diluted <sup>(2)</sup>	<b>0.01</b>	(0.01)	0.01	0.02	-	(0.01)	-	0.01
(\$000)								
Capital expenditures	<b>1,453</b>	3,050	16,717	6,344	7,345	3,083	6,439	3,828
Property acquisitions/(dispositions)	-	986	2,637	(27,712)	-	(355)	-	(750)
Total assets	<b>55,704</b>	54,023	54,793	49,957	55,973	50,807	49,848	46,890
Net debt (working capital surplus) <sup>(1)</sup>	<b>2,105</b>	4,805	1,872	(14,761)	8,495	3,663	2,810	(1,156)
Shareholders' equity	<b>42,983</b>	41,867	42,633	41,643	38,616	38,165	38,933	38,336
Common shares outstanding (000)								
Weighted average for the period - basic <sup>(2)</sup>	<b>108,921</b>	108,921	108,921	108,921	108,921	108,921	108,921	108,921
Weighted average for the period - diluted <sup>(2)</sup>	<b>110,430</b>	110,260	112,281	110,546	109,133	109,570	108,922	109,082
Shares outstanding, end of period	<b>108,921</b>	108,921	108,921	108,921	108,921	108,921	108,921	108,921

(1) Adjusted funds flow, 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 second 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 but recovered in the first quarter of 2019 as Canadian oil differentials narrowed as a result of the Alberta government mandatory curtailment.

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 and facility work at the previously commissioned multi-well battery. Capital expenditures in the first quarter of 2019 included equipping one well for production, an electrification project at the Leduc-Woodbend multi-well battery and associated pad sites, pipeline costs and initial costs related to a compressor installation.

Altura recorded net income in the second and third 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. In the first quarter of 2019, Altura recorded net income of \$0.9 million from increased production volumes and higher crude 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**

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 right-of-use ("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.

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.

Altura's adjusted funds flow was impacted by the adoption of IFRS 16. Where lease payments made for certain operating items were previously included in G&A, these payments are now reflected as payments of interest and lease liabilities, which increases adjusted funds flow. As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable.

## **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 "adjusted funds flow", "working capital deficit", "net debt", and "operating netback". The data presented in this MD&A and first quarter report is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. These reported non-GAAP measures and their underlying

calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used, they should be given careful consideration by the reader.

#### Adjusted Funds Flow

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

Altura reports adjusted funds flow in total, on a per share basis and on a per Boe basis. The Corporation's adjusted funds flow is disclosed in the "Net Income and Adjusted Funds Flow" section of this MD&A on page 13. The following schedule sets out the reconciliation of net income to adjusted funds flow and cash flow from operating activities for the reporting period and the comparable prior period:

(\$000)	Three months ended March 31,	
	2019	2018
Net income	929	177
Adjusted for the following non-cash items		
Deferred tax expense	398	-
Depletion, depreciation and amortization	2,637	1,738
Accretion of decommissioning liability	28	37
Share-based compensation	158	216
Lease interest	3	-
<b>Adjusted funds flow</b>	<b>4,153</b>	2,168
Changes in non-cash operating working capital	(1,863)	275
<b>Cash flow from operating activities</b>	<b>2,290</b>	2,443

#### Working capital deficit and Net Debt

Management views working capital deficit and net debt as key industry benchmarks and measures to assess the Corporation's financial position and liquidity. Working capital deficit is calculated as current assets less current liabilities. Net debt is calculated as working capital deficit less the current portion of lease liabilities and less the current portion of the decommissioning liability. Management has excluded the current portion of the decommissioning liability, commencing in the first quarter of 2019, 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. Comparative periods have been re-classified to conform to current presentation. Altura's working capital deficit and net debt are disclosed in the "Liquidity" and "Net Debt" sections of this MD&A on pages 17 and 18.

#### 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 10.

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

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

## Forward-looking Information

This MD&A and 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 2019 capital expenditure program;
- forecasted average production and percent growth for 2019;
- plans to implement a waterflood pilot project in 2019; and
- plans to drill a vertical stratigraphic well in June 2019.

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 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 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 by Altura or by third party operators, if any, 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.