

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(\$000)	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	-	142
Accounts receivable (note 13)	854	1,819
Prepaid expenses and deposits	272	149
Fair value of financial instruments (note 13)	70	-
	1,196	2,110
Exploration and evaluation (note 5)	196	1,170
Property and equipment (note 6)	22,397	51,574
Right-of-use assets (note 7)	-	199
Total assets	23,789	55,053
LIABILITIES		
Current liabilities		
Bank debt (note 8)	4,001	-
Accounts payable and accrued liabilities	1,685	2,305
Current portion of lease liabilities (note 9)	48	48
Current portion of decommissioning liability (note 10)	15	15
Contract liability	-	368
Fair value of financial instruments (note 13)	-	432
	5,749	3,168
Lease liabilities (note 9)	168	194
Decommissioning liability (note 10)	5,849	5,363
Deferred taxes	-	1,472
Total liabilities	11,766	10,197
SHAREHOLDERS' EQUITY		
Share capital (note 11)	37,712	37,712
Performance warrants (note 11e)	-	2,517
Contributed surplus	7,197	4,377
Retained earnings (deficit)	(32,886)	250
Total shareholders' equity	12,023	44,856
Total liabilities and shareholders' equity	23,789	55,053
Commitments (notes 4 and 16)		
Subsequent event (note 13)		

See accompanying notes to the interim condensed consolidated financial statements.

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

(\$000, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
REVENUE				
Petroleum and natural gas sales (note 12)	2,526	6,420	5,956	20,226
Royalties	(222)	(727)	(434)	(2,011)
Realized gain (loss) on financial instruments	42	(38)	1,329	140
Unrealized gain (loss) on financial instruments (note 13)	(373)	(265)	502	98
	1,973	5,390	7,353	18,453
EXPENSES				
Operating	1,171	1,196	3,201	4,008
Transportation	212	506	592	1,863
General and administrative	482	374	1,196	1,261
Exploration expense	-	-	-	21
Share-based compensation (note 11)	67	135	241	460
Interest and financing charges	103	50	178	180
Depletion, depreciation and amortization (notes 6 and 7)	901	2,685	2,980	7,596
Impairment (notes 5, 6 and 7)	-	-	34,750	-
Accretion of decommissioning liability (note 10)	16	26	47	80
Gain on property dispositions (note 4)	(619)	-	(1,224)	-
	2,333	4,972	41,961	15,469
Income (loss) before taxes	(360)	418	(34,608)	2,984
Deferred tax expense (recovery)	-	120	(1,472)	713
Net income (loss) and comprehensive income (loss)	(360)	298	(33,136)	2,271
Net income (loss) per share, (note 11d)				
Basic	-	-	(0.30)	0.02
Diluted	-	-	(0.30)	0.02

See accompanying notes to the interim condensed consolidated financial statements.

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

For the periods ended September 30

(\$000)	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2018	37,712	2,176	3,944	(1,965)	41,867
Share-based compensation expense (note 11)	-	237	223	-	460
Share-based compensation capitalized (note 11)	-	53	97	-	150
Net income for the period	-	-	-	2,271	2,271
Balance, September 30, 2019	37,712	2,466	4,264	306	44,748
Balance, December 31, 2019	37,712	2,517	4,377	250	44,856
Share-based compensation expense (note 11)	-	103	138	-	241
Share-based compensation capitalized (note 11)	-	22	40	-	62
Expiry of performance warrants (note 11)	-	(2,642)	2,642	-	-
Net loss for the period	-	-	-	(33,136)	(33,136)
Balance, September 30, 2020	37,712	-	7,197	(32,886)	12,023

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(\$000)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss) for the period	(360)	298	(33,136)	2,271
Items not involving cash:				
Deferred tax expense (recovery)	-	120	(1,472)	713
Depletion, depreciation and amortization (notes 6 and 7)	901	2,685	2,980	7,596
Impairment (notes 5, 6 and 7)	-	-	34,750	-
Accretion of decommissioning liability (note 10)	16	26	47	80
Lease interest	-	3	-	9
Share-based compensation (note 11)	67	135	241	460
Gain on property dispositions (note 4)	(619)	-	(1,224)	-
Unrealized loss (gain) on financial instruments (note 13)	373	265	(502)	(98)
Change in non-cash working capital (note 15)	127	(351)	516	(1,992)
	505	3,181	2,200	9,039
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES				
Change in bank debt (note 8)	(929)	3,118	4,001	2,439
Repayment of principal relating to lease liabilities	(9)	-	(26)	-
	(938)	3,118	3,975	2,439
CASH FLOW USED IN INVESTING ACTIVITIES				
Property and equipment expenditures	(469)	(3,466)	(3,779)	(10,300)
Exploration and evaluation asset expenditures	-	(87)	(3,990)	(1,056)
Property dispositions (note 4)	875	-	1,746	-
Change in non-cash working capital (note 15)	27	(2,746)	(294)	(122)
	433	(6,299)	(6,317)	(11,478)
CHANGE IN CASH AND CASH EQUIVALENTS	-	-	(142)	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	142	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	-	-	-
Cash interest paid	103	47	178	171

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 nine months ended September 30, 2020 and 2019

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, 2019, except as noted in notes 2b and 3. In the opinion of management, these Financial Statements contain all adjustments necessary to present fairly Altura's financial position as at September 30, 2020 and the results of its operations and cash flows for the three and nine months ended September 30, 2020 and 2019. 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, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

These Financial Statements were approved by the Board of Directors on November 18, 2020.

(b) Significant Accounting Policies

Government Grants

Altura recognizes government grants as they are received or if there is reasonable assurance that the Corporation is in compliance with all associated conditions. When the grant relates to an expense item, it is recognized as a reduction to the related expense in the period in which the costs are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

(c) 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.

(d) Functional and Presentation Currency

The Financial Statements are presented in Canadian dollars, which is the Corporation and its subsidiary's functional currency.

(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.

In March 2020, the World Health Organization declared a global pandemic due to the rapid outbreak of the coronavirus ("COVID-19"). The measures taken in response to the outbreak such as quarantine and travel restrictions have led to an unprecedented disruption to the global economy and significantly reducing worldwide demand for crude oil resulting in a buildup of supply and inventory. The continued uncertainty created by COVID-19 has had an adverse impact on the global economy and the impact is anticipated to be far-reaching.

In addition, increased global supply due to a disagreement over production restrictions to match demand between Russia and Saudi Arabia resulted in substantial negative pressure on commodity prices. Consequently, the effect of these two events created a dramatic decrease in commodity prices which resulted in a decline in Altura's share price and market capitalization since year-end 2019. The potential risk and impact due to the events described above relating to the Corporation has been taken into consideration in management's estimates used for the period end. However, there could be a further prospective material impact in future periods.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Corporation, its performance, and estimates and assumptions used by Management in the preparation of its financial results.

A full list of the key sources of estimation uncertainty can be found in the Corporation's audited consolidated financial statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare these Financial Statements, particularly related to the following key sources of estimation uncertainty:

Recoverable Amounts

Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices. Refer to note 6 for discussion regarding impairment.

Credit Facilities

The Corporation's credit facilities are payable on demand and contain customary material adverse change clauses. The maximum borrowing limit of the revolving operating demand loan (the "Operating Loan") is based on the Lender's interpretation of the Corporation's reserves, future commodity prices and costs. As the maximum borrowing limit of the Operating Loan is based on the lender's interpretation of the Corporation's reserves and future commodity prices and costs, there can be no assurance that the amount of the Operating Loan will not be adjusted at the next scheduled review. Forecasted commodity prices have decreased significantly in the nine months ended September 30, 2020 which could impact the Lender's interpretation of the future value of the Corporation's reserves. Refer to note 8 for discussion regarding Altura's credit facilities.

Accounts Receivable

The Corporation has increased its monitoring of receivables due from petroleum and natural gas marketers and from joint asset partners to manage credit risk. The Corporation historically has not experienced any collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint asset partners, the Corporation has the ability to withhold production in the event of non-payment and the ability to obtain the partners' share of capital expenditures in advance of a project. The Corporation continues to expect that its receivables are collectible at September 30, 2020.

3. CHANGES IN ACCOUNTING POLICIES

The Corporation adopted IFRS 3, "Business Combinations", on January 1, 2020. Amendments to IFRS 3 were issued by the IASB in October 2018 that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets are concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is not applied, or the test fails, then the assessment focuses on the existence of a substantive process. The adoption of IFRS 3 had no impact to the Corporation's Financial Statements.

4. DISPOSITIONS

On June 30, 2020, Altura amended the timing of the second transaction in the December 4, 2019 definitive agreement (the "Amending Agreement") with a private company ("PrivateCo") for the sale of a 5.5% working interest in the Corporation's production, wells, lands and facilities for cash of \$3.5 million (the "Second Transaction"). The Second Transaction was amended to close in four stages as follows:

Stage	Closing Date	Disposition Interest	Cash Proceeds
Stage 1	June 30, 2020	1.375%	\$875,000
Stage 2	September 30, 2020	1.375%	\$875,000
Stage 3	January 31, 2021	1.375%	\$875,000
Stage 4	June 30, 2021	1.375%	\$875,000
Total		5.500%	\$3,500,000

On September 30, 2020, Altura closed stage two of the Amending Agreement and divested of a 1.375% working interest in the Corporation's production, wells, lands and facilities for cash of \$875,000. Altura recorded \$338,000 to D&P asset dispositions, \$3,000 to E&E asset dispositions, reduced the decommissioning liability by \$85,000 associated with the asset disposition and recorded a gain on disposition of \$619,000 for the three months ended September 30, 2020.

On June 30, 2020, Altura closed stage one of the Amending Agreement and divested of a 1.375% working interest in the Corporation's production, wells, lands and facilities for cash of \$871,000 after transaction costs. Altura recorded \$342,000 to D&P asset dispositions, \$3,000 to E&E asset dispositions, reduced the decommissioning liability by \$79,000 associated with the asset disposition and recorded a gain on disposition of \$605,000 for the nine months ended September 30, 2020.

The December 4, 2019 agreement included a drilling commitment related to the Second Transaction ("Commitment Well"), whereby Altura committed to the drilling of a horizontal well in either the Entice area or the Leduc-Woodbend area on or before December 31, 2020. Given the current environment, drilling risk profile and capital efficiency in each of the areas, the parties have agreed the well will be drilled at Leduc-Woodbend at a time when commodity prices support well economics. Estimated total gross drill, complete and equipping costs of the well is \$2.3 million. Given that the parties have agreed for the Commitment Well to be drilled in the Leduc-Woodbend area, PrivateCo will pay 12.5% of the well costs and earn a 12.5% working interest in the well and the optional third funding transaction contemplated by the December 4, 2019 agreement will not be executed by PrivateCo.

5. EXPLORATION AND EVALUATION

The following table reconciles Altura's Exploration and Evaluation ("E&E") assets:

(\$000)	Total
Balance, December 31, 2018	-
Additions	1,224
Disposition	(85)
Change in decommissioning costs	31
Balance, December 31, 2019	1,170
Additions	3,768
Change in decommissioning costs	59
Dispositions (note 4)	(6)
Impairment	(4,795)
Balance, September 30, 2020	196

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 at its Entice area during the periods. E&E asset additions in the nine months ended September 30, 2020 include land, drilling, completion, and equipping costs related to a horizontal well drilled at Entice. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$nil and \$134,000 in the three and nine months ended September 30, 2020 (September 30, 2019 – \$69,000 and \$120,000), respectively.

Impairment

March 31, 2020

As at March 31, 2020, the Corporation determined that indicators of impairment existed with respect to its E&E assets, which are all in the Entice area. For impairment testing, the recoverable amount of E&E assets was determined using internal estimates of the fair value of undeveloped land based principally on relevant land sales. For the three months ended March 31, 2020, Altura recognized an impairment charge of \$4,755,000 (no impairment at December 31, 2019) on E&E assets.

June 30, 2020

During the three months ended June 30, 2020, Altura recorded an additional \$40,000 of impairment to its E&E assets in the Entice area relating to additional well costs recorded in the three months ended June 30, 2020.

September 30, 2020

As at September 30, 2020, there were no triggers to perform an impairment test or reversal of prior impairments.

6. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost (\$000)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2018	60,204	178	60,382
Additions	11,843	15	11,858
Disposition	(5,064)	-	(5,064)
Change in decommissioning costs	(58)	-	(58)
Balance, December 31, 2019	66,925	193	67,118
Additions	3,685	10	3,695
Dispositions (note 4)	(2,090)	-	(2,090)
Change in decommissioning costs	544	-	544
Balance, September 30, 2020	69,064	203	69,267
Depletion, depreciation and impairment			
(\$000)			
Balance, December 31, 2018	(7,167)	(46)	(7,213)
Depletion, depreciation and amortization	(9,420)	(33)	(9,453)
Disposition	1,122	-	1,122
Balance, December 31, 2019	(15,465)	(79)	(15,544)
Depletion, depreciation and amortization	(2,948)	(21)	(2,969)
Dispositions (note 4)	1,410	-	1,410
Impairment	(29,767)	-	(29,767)
Balance, September 30, 2020	(46,770)	(100)	(46,870)
Carry amounts			
(\$000)			
As at December 31, 2019	51,460	114	51,574
As at September 30, 2020	22,294	103	22,397

Estimated future development costs of \$81.4 million (December 31, 2019 – \$85.8 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$72,000 and \$237,000 in the three and nine months ended September 30, 2020 (September 30, 2019 – \$151,000 and \$440,000), respectively.

Impairment

March 31, 2020

At March 31, 2020, the Corporation determined there to be indicators of impairment in its Leduc-Woodbend CGU due to the potential long-term impact of the COVID-19 pandemic which caused a significant decline in forward oil benchmark prices and due to a decline in Altura's market capitalization in the first quarter of 2020. Altura has only one CGU. In the three months ended March 31, 2020, the Corporation recognized an impairment charge of \$30.0 million (no impairment at December 31, 2019) related to its Leduc-Woodbend CGU due to the carrying value exceeding the estimated recoverable amount. Included in the impairment charge is \$0.2 million related to impairment of the Corporation's right-of-use ("ROU") assets.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved plus probable reserve values from Altura's December 31, 2019 reserve report prepared by its independent reserve evaluator, updated using forward commodity price estimates at April 1, 2020, revised operating cost assumptions and timing of future development costs and removed production from January 1, 2020 to March 31, 2020. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included value for certain

undeveloped land included in property and equipment and related to this CGU based on management's estimates as at March 31, 2020, based principally on relevant land sales. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 17 percent.

The following table details the forward pricing used in estimating the recoverable amount of Altura's Leduc-Woodbend CGU at March 31, 2020:

	WTI Crude Oil (\$US/bbl) ^(1,2)	Western Canadian Select Crude Oil (\$CAD/bbl) ^(1,2)	Alberta AECO Gas (\$CAD/mmbtu) ^(1,2)	Foreign Exchange (\$US/\$CAD) ⁽¹⁾
2020 (9 mos)	29.17	19.21	1.74	0.707
2021	40.45	34.65	2.20	0.728
2022	49.17	46.34	2.38	0.745
2023	53.28	51.25	2.45	0.747
2024	55.66	54.28	2.53	0.748
2025	56.87	55.72	2.60	0.750
2026	58.01	56.96	2.66	0.750
2027	59.17	58.22	2.72	0.750
2028	60.35	59.51	2.79	0.750
2029	61.56	60.82	2.85	0.750
2030	62.79	62.04	2.91	0.750
2031	64.05	63.28	2.97	0.750
2032	65.33	64.55	3.03	0.750
2033	66.63	65.84	3.09	0.750
2034	67.97	67.15	3.15	0.750
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.750

(1) Source: Three Consultants' average, McDaniel & Associates Consultants, GLJ Petroleum Consultants, and Sproule Associates price forecasts, effective April 1, 2020.

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

The impairment recorded at March 31, 2020 may be reversed at such time that the estimated recoverable amount of the impaired property and equipment increases.

The following table demonstrates the sensitivity of the impairment amount at March 31, 2020 using reasonable changes in key assumptions inherent in the estimate:

	Increase in discount rate of 1 percent	Decrease in discount rate of 1 percent	Decrease in forecasted combined average realized prices of 5 percent	Increase in forecasted combined average realized prices of 5 percent
(\$000)				
Impairment increase (decrease)	1,277	(679)	2,514	(2,486)

September 30, 2020

As at September 30, 2020, there were no triggers to perform an impairment test or reversal of prior impairments.

7. RIGHT-OF-USE ASSETS

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

(\$000)	Total
Balance, January 1, 2019	241
Additions	-
Depreciation	(42)
Balance, December 31, 2019	199
Additions	-
Depreciation	(11)
Impairment	(188)
Balance, September 30, 2020	-

During the three months ended March 31, 2020, Altura performed an impairment test on its Leduc-Woodbend CGU which incorporated the above office space, and office equipment ROU assets. Please refer to note 6 for further discussion regarding impairment.

As at September 30, 2020, there were no triggers of reversal of prior impairments.

8. CREDIT FACILITIES

In August 2020, Altura completed the redetermination of its revolving operating demand loan (the "Operating Loan") with a Canadian bank (the "Lender") and the borrowing base was confirmed at \$6.0 million. Additionally, Altura secured a \$3.0 million term loan from its Lender through the Business Credit Availability Program ("BCAP") Guarantee from the Export Development Bank of Canada ("EDC") (the "Term Loan"), providing \$9.0 million of total credit facilities.

Altura's bank debt at September 30, 2020 and December 31, 2019 is summarized as follows:

(\$000)	September 30, 2020	December 31, 2019
Operating Loan	1,001	-
Term Loan	3,000	-
Bank debt	4,001	-

The Operating Loan is revolving, payable on demand and contains customary material adverse change clauses. The Operating Loan 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.

The Term Loan is a non-revolving term facility to be used exclusively to provide additional liquidity to finance Altura's business operations. It can be used to pay operating expenses, G&A expenses, interest on the Operating Loan, lease payments and pay down temporary advances on Altura's Operating Loan. The Term Loan cannot be used to repay or refinance permanent reductions to the Operating Loan or to make shareholder contributions, shareholder loans, share buy backs, or pay any bonuses or increase executive compensation.

The Term Loan is payable on demand by Altura's Lender and is non-revolving, therefore amounts repaid cannot be reborrowed and contains customary material adverse change clauses. The Term Loan has a five-year maturity with no less than 50% of amounts outstanding due on August 27, 2024 and the remaining balance due on August 27, 2025.

The Operating Loan and Term Loan (collectively the "Credit Facilities") are 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.

The interest rate on the Credit Facilities is the Lender's prime rate plus 4.5 percent per annum. Fees for Letters of Credit issued under the Operating Loan are 3.5 percent and standby fees on the unused portion of the authorized amount of the Operating Loan are 1.125 percent.

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 Facilities and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan is added to current assets.
- the Corporation will, at all times, maintain hedging agreements covering no less than 30 percent of Altura's forecasted total production for no less than the succeeding nine-month period, on a rolling basis whereby at least fifty percent of the hedged volumes (on a barrels of oil equivalent basis) must be crude oil hedges (Western Canadian Select);
- the Corporation will maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0 and,
- Altura shall not make any capital expenditures in excess of \$500,000 above the budget provided to the Lender from August 27, 2020 to January 31, 2021.

As at September 30, 2020, the working capital ratio as defined was 3.48:1 (December 31, 2019 – 4.0:1) and the Corporation was compliant with all covenants, including the hedging covenant and LLR covenant.

As at September 30, 2020, \$4.0 million (December 31, 2019 - \$nil) was drawn on the Credit Facilities and the Corporation had an outstanding letter of credit for \$50,000 (December 31, 2019 - \$160,000).

The next review date for the Credit Facilities has been scheduled for May 31, 2021 but may be set at an earlier or later date at the sole discretion of the Lender.

9. LEASE LIABILITIES

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

(\$000)	As at September 30, 2020
October 2020—December 2020	12
2021—2022	111
2023—2024	119
Total lease payments	242
Impact of discounting	(26)
Lease liabilities	216
Payments due within one year	48
Payments due beyond one year	168

The following table reconciles lease liabilities:

(\$000)	Total
Balance, January 1, 2019	241
Lease interest (non-cash)	9
Lease interest (cash)	5
Total cash outflow	(13)
Balance, December 31, 2019	242
Lease interest (cash)	10
Total cash outflow	(36)
Balance, September 30, 2020	216

10. DECOMMISSIONING LIABILITY

The Corporation's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Altura estimates the total undiscounted and un-escalated amount of cash flows required to settle its decommissioning obligations as at September 30, 2020 to be approximately \$5.5 million (December 31, 2019 – \$5.6 million) with the majority of costs anticipated to be incurred between 2030 and 2038. A risk-free Government of Canada long-term bond discount rate of 1.11 percent (December 31, 2019 – 1.76 percent) and an inflation rate of 1.29 percent (December 31, 2019 – 1.35 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of period	5,378	5,771
Additions	80	274
Liabilities disposed (note 4)	(164)	(470)
Change in estimates ⁽¹⁾	523	(301)
Accretion	47	104
Balance, end of period	5,864	5,378
Expected to be incurred within one year	15	15
Expected to be incurred beyond one year	5,849	5,363

(1) The change in estimates is due to a change in the discount and inflation rates totaling \$517,000 (December 31, 2019 - \$237,000 credit) and a change in abandonment and remediation cost estimates and future abandonment dates totaling \$6,000 (December 31, 2019 - \$64,000 credit).

11. SHARE CAPITAL

(a) Authorized:

- Unlimited number of voting common shares.
- Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance.

(b) Issued and outstanding:

	Number of common shares	Amount (\$000)
Balance, December 31, 2018, December 31, 2019 and September 30, 2020	108,920,974	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 September 30, 2020 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the three and nine months ended September 30, 2020 and 2019.

A summary of the Corporation's outstanding stock options at September 30, 2020 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2018	8,390,000	0.34
Granted	1,380,000	0.42
Balance, December 31, 2019	9,770,000	0.35
Forfeited	(435,000)	0.34
Balance, September 30, 2020	9,335,000	0.35

The range of exercise prices for stock options outstanding and exercisable under the plan at September 30, 2020 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	0.43	9,335,000	1.6	0.35	7,158,329	1.1	0.34
		9,335,000	1.6	0.35	7,158,329	1.1	0.34

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 nine months ended September 30, 2020 was \$55,000 and \$178,000 (September 30, 2019 – \$125,000 and \$320,000) of which \$5,000 and \$40,000 was capitalized (September 30, 2019 – \$44,000 and \$97,000), respectively.

(d) Weighted average common shares:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Basic	108,920,974	108,920,974	108,920,974	108,920,974
Diluted	108,920,974	109,517,320	108,920,974	110,191,060

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 nine months ended September 30, 2020, 9,335,000 stock options were excluded from the weighted average number of common shares as they were anti-dilutive (September 30, 2019 – 4,200,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

	Number of Performance Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2018, December 31, 2019	9,749,879	0.449
Expired	(9,749,879)	0.449
Balance, September 30, 2020	-	-

The Corporation's 9,749,879 performance warrants were not exercisable and 9,400,000 expired on July 31, 2020 and 349,879 expired on August 28, 2020. Share-based compensation relating to performance warrants for the three and nine months ended September 30, 2020 was \$19,000 and \$125,000 (September 30, 2019 – \$74,000 and \$290,000) of which \$2,000 and \$22,000 was capitalized (September 30, 2019 – \$20,000 and \$53,000), respectively.

12. REVENUE

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

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

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Heavy oil	1,893	5,853	4,314	18,194
Light & medium oil	63	-	78	300
Natural gas	478	325	1,280	1,137
Natural gas liquids	92	242	284	595
Petroleum and natural gas sales	2,526	6,420	5,956	20,226

As at September 30, 2020, receivables for revenue were \$650,000, which are included in accounts receivable (December 31, 2019 - \$1,498,000).

13. 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 September 30, 2020, pertain to revenue for accrued September 2020 production volumes and receivables from joint interest partners. Altura primarily transacts with five oil and natural gas marketing companies. The marketing companies typically remit amounts to Altura by the 25th day of the month following production. At September 30, 2020, 23 percent, 22 percent and 19 percent of total outstanding accounts receivable pertain to three marketing companies, and 14 percent pertains to a joint interest partner. Altura did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at September 30, 2020. For the nine months ended September 30, 2020, the Corporation received approximately 28 percent, 20 percent, 16 percent, 12 percent and 12 percent of its revenue from five marketing companies (September 30, 2019 – 33 percent, 23 percent, and 17 percent of its revenue from three marketing companies).

At September 30, 2020, the Corporation's trade receivables have been aged as follows:

As at (\$000)	September 30, 2020	December 31, 2019
Current	826	1,674
31 – 60 days	-	7
61 – 90 days	-	85
> 90 days	28	53
Allowance for doubtful accounts	-	-
Total	854	1,819

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 Operating Loan. 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 September 30, 2020, Altura held the following crude oil and natural gas contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at September 30, 2020 (\$'000)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD \$71.35	477
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD (\$24.00)	(267)
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD \$32.25	(107)
Jan 1/21—Jun 30/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD \$39.20	19
Jul 1/21—Sep 30/21	Crude Oil	Fixed	200 Bbls/d	WCS	CAD \$36.70	(41)
Oct 1/20—Oct 31/20	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD \$2.380	5
Nov 1/20—Mar/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD \$2.825	(13)
Apr 1/21—Jun 30/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD \$2.455	(5)
Jul 1/21—Sep 30/21	Natural Gas	Fixed	1,000 GJ/d	AECO 5A	CAD \$2.580	2
						70

At September 30, 2020, the crude oil and natural gas contracts were fair valued with an asset of \$70,000 (December 31, 2019 - \$432,000 liability) recorded on the balance sheet.

Subsequent to September 30, 2020, Altura entered into the following crude oil contract:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price
Oct 1/21—Dec 31/21	Crude Oil	Fixed	100 Bbls/d	WCS	CAD \$37.70

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts. However, future liquidity depends on the ability of the Corporation to access debt markets and generate cash flow from operations, which are also impacted by the availability under Altura's Credit Facilities and additional equity. Various industry risk factors, including uncertainty around improvements in global commodity prices and pipeline and transportation capacity constraints in Western Canada, may adversely affect the Corporation's future liquidity as pertains to these operational and financing requirements. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities are due on demand.

14. CAPITAL MANAGEMENT

The Corporation's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Corporation considers its capital structure to include shareholders' equity, bank debt 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 and transaction costs, if any. 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 third quarter of 2020 and fourth quarter of 2019 is calculated as follows:

(\$000)	Three months ended September 30, 2020	Three months ended December 31, 2019
Net loss	(360)	(56)
Adjusted for the following non-cash items		
Deferred tax expense (recovery)	-	33
Depletion, depreciation and amortization	901	1,899
Accretion of decommissioning liability	16	24
Share-based compensation	67	116
Loss (gain) on disposition of assets	(619)	417
Unrealized loss on financial instruments	373	530
Quarterly adjusted funds flow	378	2,963
Annualized adjusted funds flow	1,512	11,852

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 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 September 30, 2020 and December 31, 2019 is summarized as follows:

(\$000)	September 30, 2020	December 31, 2019
Current assets	(1,196)	(2,110)
Current liabilities	5,749	3,168
Working capital deficit	4,553	1,058
Fair value of financial instruments	70	(432)
Current portion of lease liabilities	(48)	(48)
Current portion of decommissioning liability	(15)	(15)
Net debt	4,560	563

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. As shown below, the Corporation's ratio of net debt to annualized adjusted funds flow increased to 3.02:1 at September 30, 2020. The increase is due to Altura's capital expenditures in the nine months ended September 30, 2020 exceeding adjusted funds flow and adding \$4.0 million to net debt from December 31, 2019 while adjusted funds flow decreased in the third quarter of 2020 compared to the fourth quarter of 2019 from lower production volumes and lower oil prices.

	September 30, 2020	December 31, 2019
Net debt (\$000)	4,560	563
Annualized adjusted funds flow (\$000)	1,512	11,852
Net debt to annualized adjusted funds flow (times)	3.02	0.05

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 2020.

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Provided by (used in):				
Accounts receivable	(93)	(680)	965	(2,123)
Prepaid expenses and deposits	(143)	49	(123)	21
Accounts payable and accrued liabilities	390	(2,466)	(620)	(12)
	154	(3,097)	222	(2,114)
Provided by (used in):				
Operating activities	127	(351)	516	(1,992)
Investing activities	27	(2,746)	(294)	(122)
	154	(3,097)	222	(2,114)

16. COMMITMENT

Altura had a commitment to drill one horizontal well by December 31, 2020 in the Leduc-Woodbend area pursuant to a drilling commitment agreement. In September 2020, the Corporation renegotiated the commitment date from December 31, 2020 to January 31, 2022. The Corporation is subject to a non-performance penalty of \$157,500 if the commitment is not fulfilled.