

## 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 August 9, 2017 and should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2017, the audited consolidated financial statements and related notes for the year ended December 31, 2016, as well as the Corporation's Annual Information Form that is filed on SEDAR at [www.sedar.com](http://www.sedar.com). These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard ("IAS") 34, Interim Financial Reporting, in Canadian dollars, except where indicated otherwise.

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

### DESCRIPTION OF BUSINESS

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

### RESULTS OF OPERATIONS

#### Production

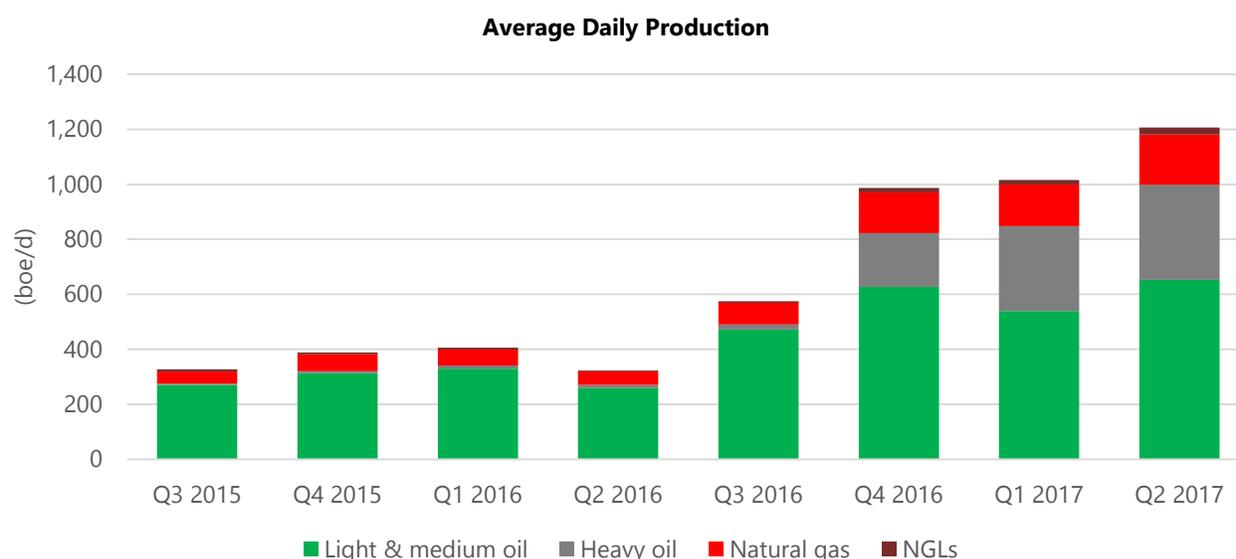
	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Light and medium oil (bbls/d)	652	259	152	595	294	102
Heavy oil (bbls/d)	346	12	>500	327	12	>500
Natural gas (mcf/d)	1,098	289	280	1,004	319	215
Natural gas liquids (bbls/d)	25	4	>500	20	5	300
Total (boe/d)	1,205	323	273	1,110	364	205
Oil and natural gas liquids % of production	85	85	-	85	85	-

Production volumes increased 273 percent to average 1,205 boe per day in the second quarter of 2017 compared to 323 boe per day in the second quarter of 2016. Light and medium oil production increased 152 percent to 652 barrels per day from 259 barrels per day in the second quarter of 2016. Heavy oil production increased to 346 barrels per day from 12 barrels per day in the second quarter of 2016. Natural gas production increased 280 percent to 1,098 mcf per day from 289 mcf per day in the second quarter of 2016.

For the first half of 2017, production volumes were 1,110 boe per day compared to 364 boe per day in the first half of 2016.

The increase in production volumes is due to the Corporation's successful drilling program in the second half of 2016 and first half of 2017, coupled with an asset acquisition that closed on September 14, 2016, in the Killam area of Alberta (the "Killam Acquisition"). Altura drilled and brought six wells on production in the first half of 2017, including one well at Leduc-Woodbend, three wells at Eyehill, one well at Killam, and one well in the Macklin area in Saskatchewan.

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



## Revenue

(\$000)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Light and medium oil	<b>3,006</b>	1,052	186	<b>5,600</b>	1,900	195
Heavy oil	<b>1,427</b>	37	>500	<b>2,712</b>	59	>500
Natural gas	<b>303</b>	40	>500	<b>545</b>	102	434
Natural gas liquids	<b>82</b>	20	310	<b>139</b>	34	309
Petroleum and natural gas sales	<b>4,818</b>	1,149	319	<b>8,996</b>	2,095	329

Petroleum and natural gas sales for the second quarter of 2017 increased 319 percent to \$4,818,000 compared to \$1,149,000 in the second quarter of 2016. The quarter-over-quarter increase of \$3,669,000 consists of \$3,170,000 attributed to increased production volumes, and \$499,000 attributed to higher realized prices. For the first half of 2017, petroleum and natural gas sales increased 329 percent compared to the first half of 2016. The increase of \$6,901,000 consists of \$4,858,000 attributed to increased production volumes, and \$2,043,000 attributed to higher realized prices.

Altura sells all of its crude oil and natural gas production on a spot basis. The average realized price the Corporation receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal benchmark trading exchanges that Altura compares its oil price to are the West Texas Intermediate ("WTI") oil spot price and the Western Canadian Select ("WCS") spot price. The differential between the WTI spot price and WCS spot price can widen due to several factors, including, but not limited to, downtime in North American refineries, rising domestic production, high inventory levels in North America and lack of pipeline infrastructure connecting key consuming oil markets.

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

	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
<b>Average Benchmark Prices</b>						
WTI crude oil (US\$/bbl) <sup>(1)</sup>	<b>48.29</b>	45.59	6	<b>50.10</b>	39.52	27
WCS differential (US\$/bbl) <sup>(2)</sup>	<b>(10.98)</b>	(13.33)	(18)	<b>(12.86)</b>	(13.84)	(7)
US\$/Cdn\$ exchange rate	<b>0.746</b>	0.775	(4)	<b>0.750</b>	0.756	(1)
WCS (Cdn\$/bbl)	<b>49.99</b>	41.61	20	<b>49.68</b>	33.95	46
AECO daily spot (\$/GJ)	<b>2.64</b>	1.33	98	<b>2.60</b>	1.53	70
<b>Average Realized Prices</b>						
Light and medium oil (\$/bbl)	<b>50.69</b>	44.60	14	<b>51.96</b>	35.47	46
Heavy oil (\$/bbl)	<b>45.36</b>	35.43	28	<b>45.77</b>	28.08	63
Natural gas (\$/mcf)	<b>3.03</b>	1.53	98	<b>3.00</b>	1.76	70
Natural gas liquids (\$/bbl)	<b>36.44</b>	52.30	(30)	<b>38.02</b>	35.02	9
Average realized price (\$/boe)	<b>43.93</b>	39.08	12	<b>44.76</b>	31.60	42
<b>Oil Price Differentials</b>						
Light and medium oil differential to WCS (\$/bbl)	<b>0.70</b>	2.99	(77)	<b>2.28</b>	1.52	50
Heavy oil differential to WCS (\$/bbl)	<b>(4.63)</b>	(6.18)	(25)	<b>(3.91)</b>	(5.87)	(33)

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

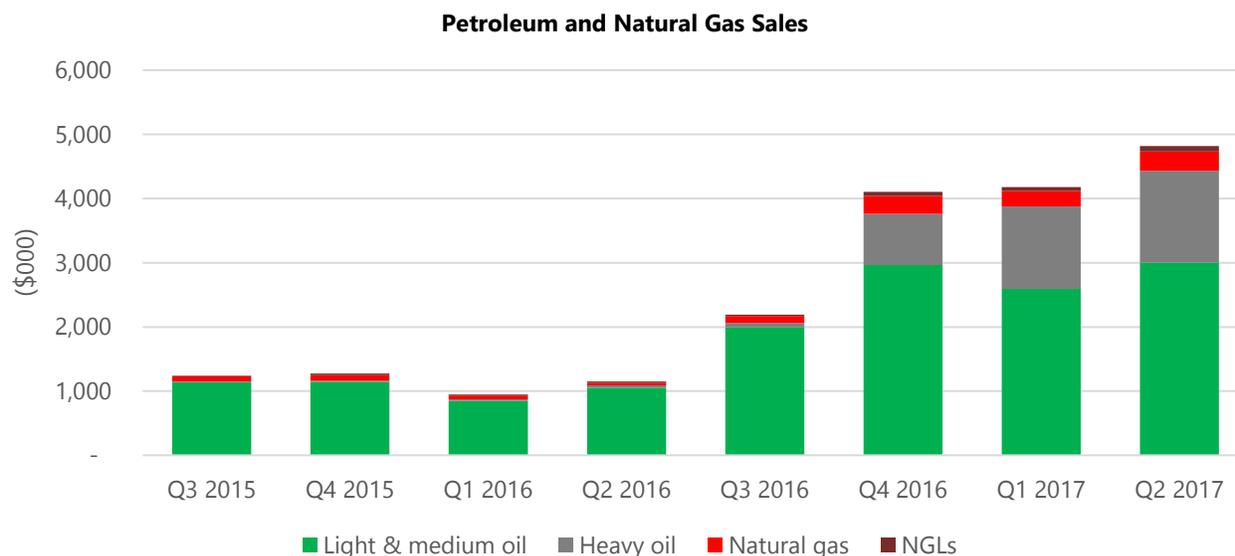
(2) WCS differential represents the difference between the average market price for the benchmark Western Canadian Select heavy crude oil and WTI.

For the second quarter and the first half of 2017 Altura's realized light and medium oil price increased by 14 percent and 46 percent, respectively, as compared to the comparable prior periods. This price increase is primarily attributed to the increase in WTI over the same time periods and the effect of a narrowing differential, or discount, between WTI and WCS crude oil prices, partially offset by a narrowing of Altura's realized light and medium oil differential, or premium, to WCS.

Realized heavy oil prices increased by 28 percent and 63 percent in the second quarter and the first half of 2017, respectively, as compared to the comparable prior periods. This price increase is primarily attributed to the increase in WTI over the same time periods, the effect of a narrowing differential, or discount, between WTI and WCS crude oil prices and an increase in average oil quality from the wells drilled in the fourth quarter of 2016 and first quarter of 2017 compared to the average heavy oil quality in the comparable prior periods.

For the three and six months ended June 30, 2017 Altura's realized natural gas price increased by 98 percent and 70 percent, respectively, compared to the same periods in 2016. These price increases are consistent with the increases in the AECO daily spot prices over the same periods.

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



### Royalties

(\$000, except % and per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Crown royalties	274	55	398	507	98	417
Freehold and overriding royalties	210	6	>500	360	12	>500
Royalty expense	484	61	>500	867	110	>500
Royalty expense as a % of sales	10.0%	5.3%	89	9.6%	5.2%	85
Royalty expense per boe	4.41	2.06	114	4.31	1.65	161

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

In the three and six months ended June 30, 2017, royalties as a percentage of sales increased 89 percent and 85 percent, respectively, from the comparative prior periods, due to increases in both Crown and freehold and overriding royalties.

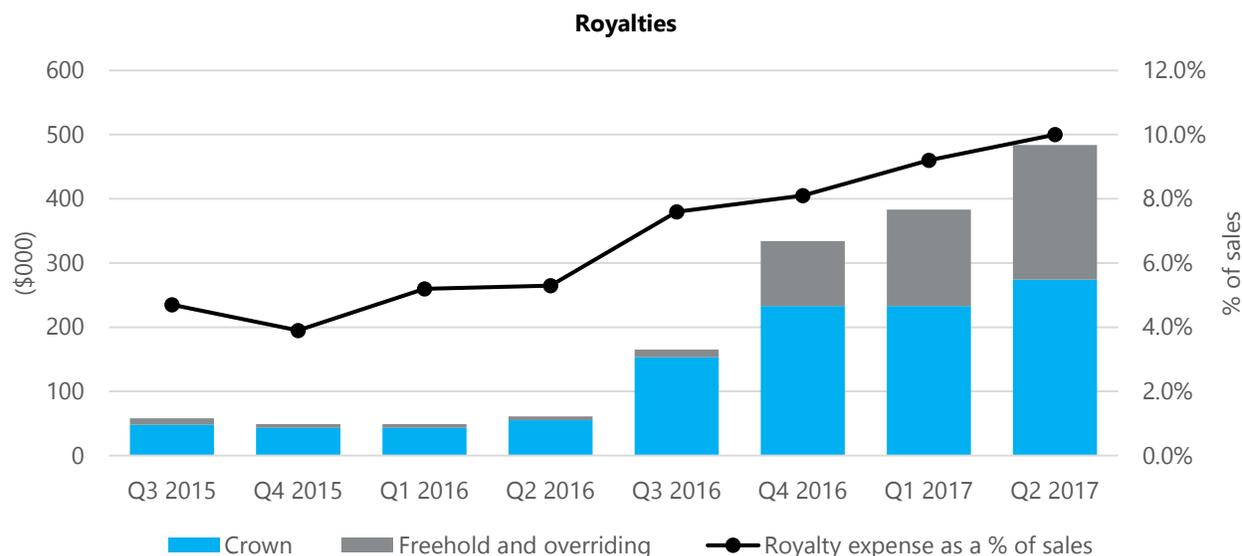
Alberta Crown royalties are based on a sliding scale with sensitivity to price, total volume produced and royalty incentives for new wells drilled on Crown lands. Crown royalties increased in three and six months ended June 30, 2017 due to increased oil prices, and a relative decrease in royalty incentives compared to the same periods in 2016.

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

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

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

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



### Operating and Transportation Costs

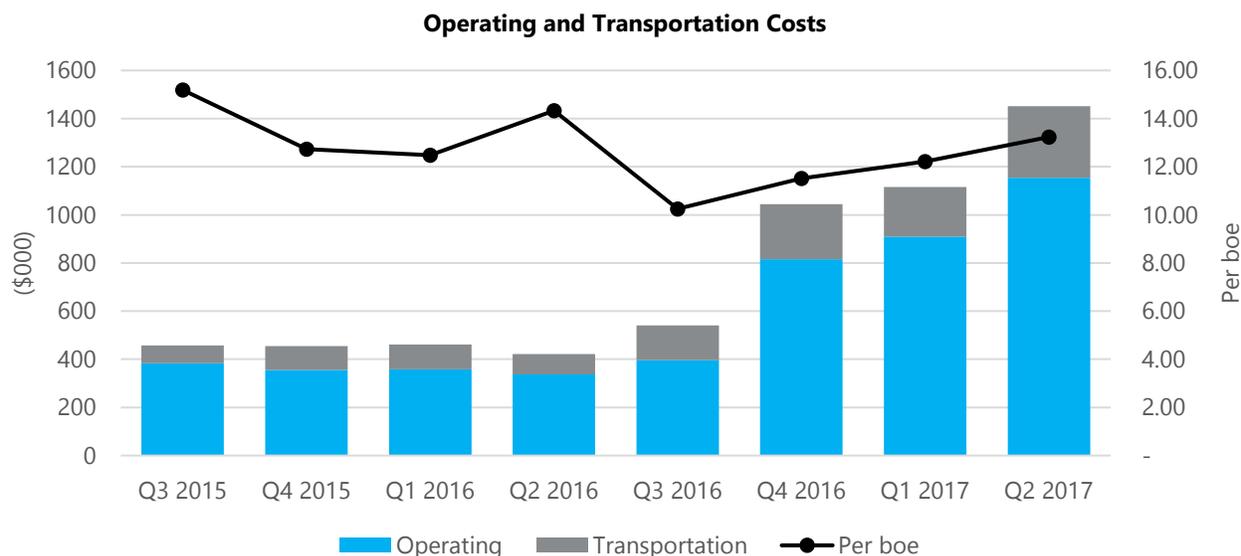
(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Operating	<b>1,154</b>	337	242	<b>2,064</b>	695	197
Transportation	<b>298</b>	85	251	<b>504</b>	189	167
Operating and transportation	<b>1,452</b>	422	244	<b>2,568</b>	884	190
Operating per boe	<b>10.52</b>	11.45	(8)	<b>10.27</b>	10.46	(2)
Transportation per boe	<b>2.71</b>	2.88	(6)	<b>2.51</b>	2.84	(12)
Operating and transportation per boe	<b>13.23</b>	14.33	(8)	<b>12.78</b>	13.30	(4)

Operating and transportation costs increased to \$1,452,000 and \$2,568,000 for the three and six months ended June 30, 2017, compared to \$422,000 and \$884,000 for the same periods in 2016, respectively. This increase is due to Altura's increase in production volumes.

On a per boe basis, operating and transportation costs were \$13.23 and \$12.78, for the three and six months ended June 30, 2017. The decreases of eight percent and four percent when compared with the same periods in 2016 were primarily a result of cost benefits of producing incremental production volumes from new wells with lower average operating costs, coupled with decreased workover expenses per boe.

Second quarter of 2017 operating and transportation costs of \$13.23 increased eight percent compared to \$12.22 for the first quarter of 2017. This increase was primarily a result of increased production from the Leduc-Woodbend area relative to total production, which has higher water hauling and disposal costs than Altura's other areas. Altura plans to commence the construction of water handling and disposal facilities at Leduc-Woodbend in August 2017, with water disposal commencing in September 2017.

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



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

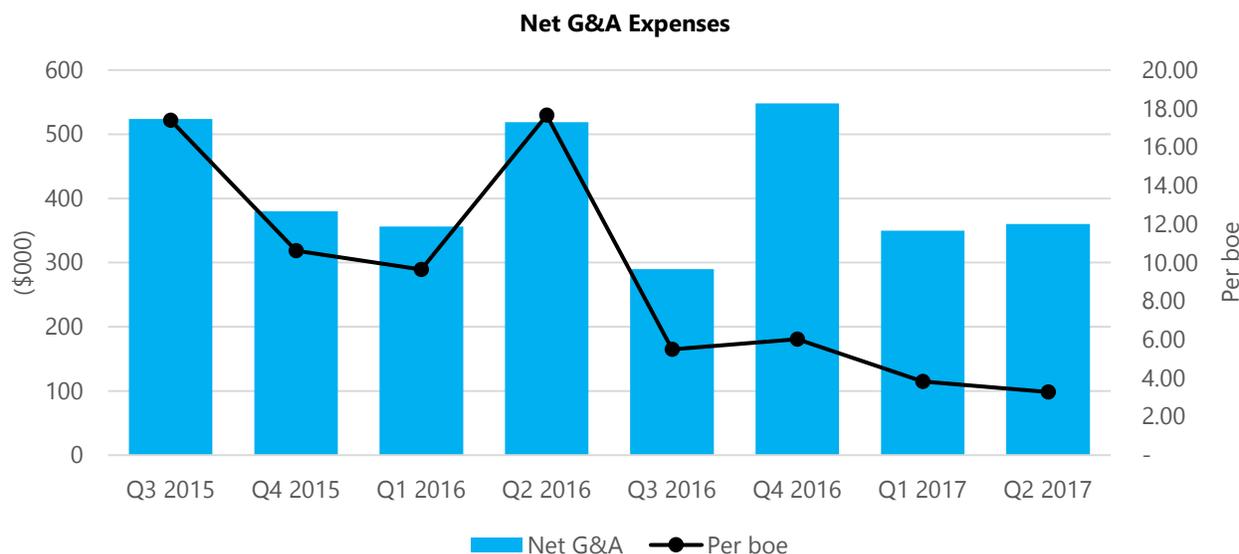
(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Gross G&A	<b>494</b>	590	(16)	<b>956</b>	998	(4)
Capitalized G&A and overhead recoveries	<b>(134)</b>	(71)	89	<b>(246)</b>	(123)	100
Net G&A expenses	<b>360</b>	519	(31)	<b>710</b>	875	(19)
Net G&A per boe	<b>3.28</b>	17.65	(81)	<b>3.53</b>	13.20	(73)

Net G&A expenses totaled \$360,000 and \$710,000 for the three and six months ended June 30, 2017, respectively, compared to \$519,000 and \$875,000 for the same periods in 2016. The decrease is primarily related to \$173,000 of severance costs included in the second quarter of 2016.

Net G&A expenses decreased 81 percent and 73 percent to \$3.28 per boe and \$3.53 per boe for the three and six months ended June 30, 2017, respectively, due to lower overall net G&A expenses and higher production volumes.

Altura's policy is to capitalize costs that are directly attributable to investments of property and equipment or exploration and evaluation assets. The increase in capitalized G&A and overhead recoveries in the three and six months ended June 30, 2017 is a result of increased capital spending compared to the same periods in 2016.

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



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

### Exploration Expense

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Exploration expense	-	30	(100)	-	30	(100)
Exploration expense per boe	-	1.01	(100)	-	0.45	(100)

Exploration expenses are costs incurred prior to acquiring the legal right to explore in an area. Exploration expense in the three and six months ended June 30, 2016, relate to seismic acquisition and processing costs incurred by the Corporation to evaluate a particular Crown land sale.

### Interest and Financing Expenses

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Interest and financing expenses	<b>30</b>	21	43	<b>36</b>	27	33
Interest and financing expenses per boe	<b>0.27</b>	0.70	(61)	<b>0.18</b>	0.41	(56)

Interest and financing expenses totaled \$30,000 and \$36,000 in the three and six months ended June 30, 2017, respectively, compared to \$21,000 and \$27,000 in the same periods of 2016. The increase is due to higher credit facility renewal fees in 2017 associated with the increase in the borrowing base from \$4.0 million to \$7.5 million.

## Interest Income

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Interest income	<b>4</b>	53	(92)	<b>18</b>	97	(81)
Interest income per boe	<b>0.03</b>	1.79	(98)	<b>0.09</b>	1.46	(94)

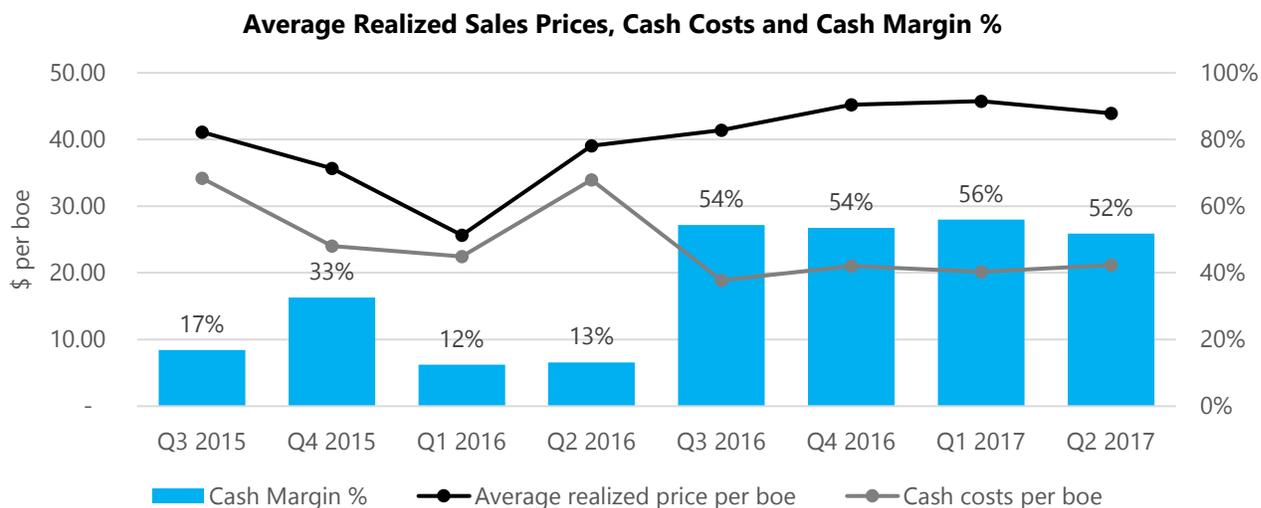
Interest income totaled \$4,000 and \$18,000 in the three and six months ended June 30, 2017, respectively, compared to \$53,000 and \$97,000 in the same periods of 2016. The decrease is due to a lower average cash balance invested in the first half of 2017.

## Netbacks

(\$/boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Average realized sales price	<b>43.93</b>	39.08	12	<b>44.76</b>	31.60	42
Royalties	<b>(4.41)</b>	(2.06)	114	<b>(4.31)</b>	(1.65)	161
Operating	<b>(10.52)</b>	(11.45)	(8)	<b>(10.27)</b>	(10.46)	(2)
Transportation	<b>(2.71)</b>	(2.88)	(6)	<b>(2.51)</b>	(2.84)	(12)
Operating netback	<b>26.29</b>	22.69	16	<b>27.67</b>	16.65	66
General and administrative	<b>(3.28)</b>	(17.65)	(81)	<b>(3.53)</b>	(13.20)	(73)
Exploration expense	-	(1.01)	(100)	-	(0.45)	(100)
Interest and financing expenses	<b>(0.27)</b>	(0.70)	(61)	<b>(0.18)</b>	(0.41)	(56)
Interest income	<b>0.03</b>	1.79	(98)	<b>0.09</b>	1.46	(94)
Corporate netback	<b>22.77</b>	5.12	345	<b>24.05</b>	4.05	494

Altura's corporate netback was \$22.77 per boe in the second quarter of 2017 compared to \$5.12 per boe in the same period of 2016. The increase is mainly a result of increased realized prices and increased production volumes resulting in decreased per unit G&A and operating costs and no exploration expense, partially offset by increased royalty expenses and decreased interest income. For the first half of 2017, Altura's corporate netback was \$24.05 per boe compared to \$4.05 per boe in the same period of 2016. The increase is mainly a result of increased realized prices and increased production volumes resulting in decreased per unit G&A and transportation costs and no exploration expense, partially offset by increased royalty expenses and decreased interest income.

The following exhibit shows Altura's average realized sales price per boe, cash costs per boe and cash margin percentage over the past eight quarters.



## Share-Based Compensation

(\$000)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Share-based compensation	274	237	16	547	534	2
Capitalized share-based compensation	(65)	(38)	71	(114)	(58)	97
Share-based compensation expense	209	199	5	433	476	(9)

Altura's share-based compensation is comprised of stock option expense and performance warrant expense. The Corporation uses the fair-value method for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. Share-based compensation, before capitalized amounts, totaled \$274,000 and \$547,000 in the three and six months ended June 30, 2017, respectively, compared to \$237,000 and \$534,000 in the same periods of 2016. The increase of 16 percent in the second quarter of 2017 is related to additional stock option expense from the November 30, 2016 stock option grant and higher performance warrant expense as the comparable prior period included a \$20,000 credit related to unvested performance warrants that were repurchased in that quarter.

Altura's policy is to capitalize costs that are directly attributable to the construction of property and equipment or exploration and evaluation assets. The increase in capitalized share-based compensation in the three and six months ended June 30, 2017, is a result of increased capital spending compared to the same periods in 2016.

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

(\$000, except per boe)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
DD&A	1,801	651	177	3,865	1,393	177
DD&A per boe	16.43	22.13	(26)	19.23	21.02	(9)

Altura uses proved and probable reserves to calculate DD&A expense. For the three and six months ended June 30, 2017, DD&A increased 177 percent and 177 percent to \$1,801,000 and \$3,865,000, respectively, over the same periods in 2016 due to increased production volumes.

DD&A decreased to \$16.43 per boe and \$19.23 per boe in the three and six months ended June 30, 2017, respectively, from \$22.13 per boe and \$21.02 per boe in the same periods of 2016 reflecting an increase in the Corporation's proved and probable reserves at a lower finding and development cost than the aggregate amount in the comparable prior periods.

## Impairment

Impairment is recognized when the carrying value of an asset or group of assets exceeds its recoverable amount, defined as the higher of its value in use or fair value less costs of disposal. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment.

At June 30, 2017, Altura evaluated its developed and producing ("D&P") assets and exploration and evaluation ("E&E") assets on a cash generating unit basis for indicators of any potential impairment or related recovery. As a result of this assessment, no indicators were identified and no impairment or related reversal was recorded on Altura's D&P assets and E&E assets for the three and six month periods ended June 30, 2017.

## Deferred Taxes

The Corporation had no deferred income tax expense or recovery in the three and six month periods ended June 30, 2017 and 2016. As at June 30, 2017 and 2016, the Corporation had an unrecognized deferred tax asset.

## Cash Flow from Operating Activities and Funds from Operations

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

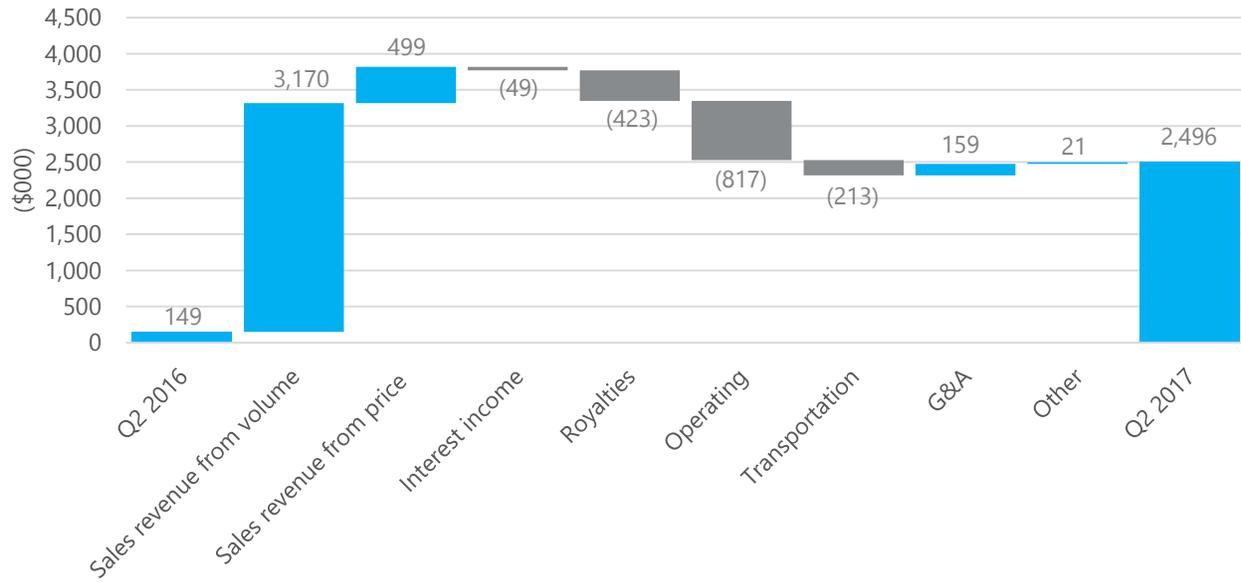
(\$000, except per share amounts)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Cash flow from (used in) operating activities	2,269	28	>500	5,063	(109)	(>500)
Decommissioning liabilities settled	-	1	(100)	11	1	>500
Changes in non-cash operating working capital	227	120	89	(241)	374	(164)
Funds from operations	2,496	149	>500	4,833	266	>500
Per share – basic	0.02	-	-	0.04	-	-
Per share – diluted	0.02	-	-	0.04	-	-

Cash flow from operating activities increased to \$2,269,000 and \$5,063,000 for the three months and six months ended June 30, 2017, compared to cash flow from (used in) operating activities of \$28,000 and (\$109,000) in the same periods of 2016. The increases are due to increased revenue from incremental production volumes and higher commodity prices coupled with changes in non-cash working capital, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and lower interest income. Non-cash working capital increased by \$227,000 for the three months ended June 30, 2017, mainly due to the increase in accounts receivable as at June 30, 2017, compared to March 31, 2017, due to higher June 2017 revenue that was collected in July 2017. For the first half of 2017, non-cash working capital decreased by \$241,000, mainly due to collecting overdue December 31, 2016 accounts receivable in the first quarter of 2017.

Details of the change in funds from operations and corporate netback per boe from the three and six months ended June 30, 2016, to the three and six months ended June 30, 2017, are as follows:

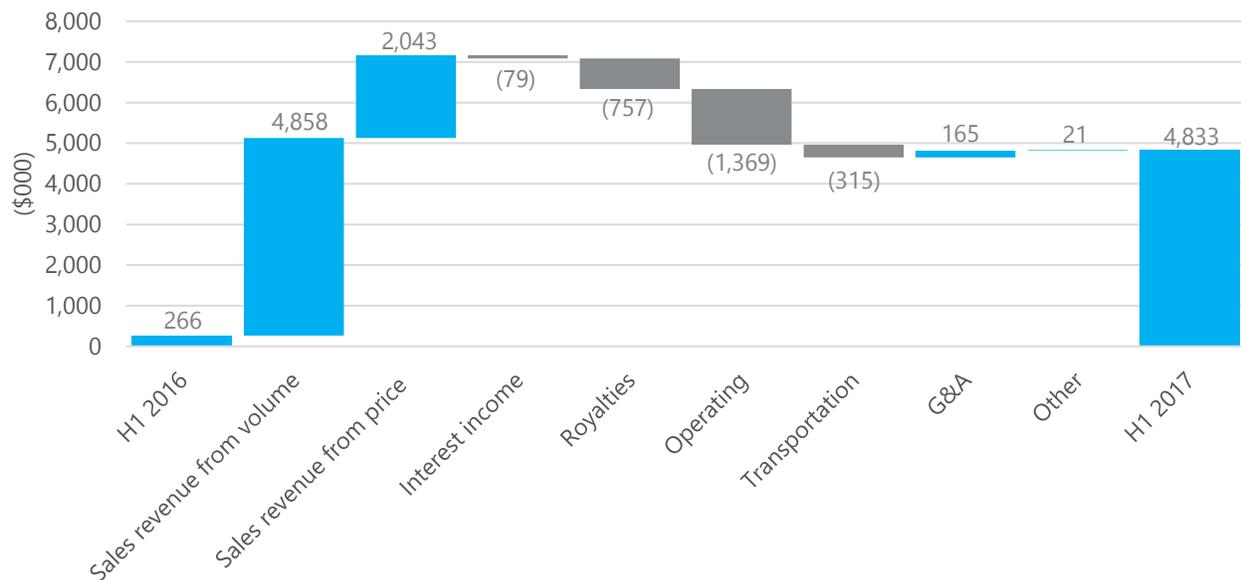
	Three months ended June 30		Six months ended June 30	
	\$000	\$/boe	\$000	\$/boe
<b>Funds from operations / Corporate netback – 2016</b>	<b>149</b>	<b>5.12</b>	<b>266</b>	<b>4.05</b>
Volume variance	3,170	-	4,858	-
Price variance	499	4.85	2,043	13.16
Interest and other income	(49)	(1.76)	(79)	(1.37)
Royalties	(423)	(2.35)	(757)	(2.66)
Expenses:				
Operating	(817)	0.93	(1,369)	0.19
Transportation	(213)	0.17	(315)	0.33
General and administrative	159	14.37	165	9.67
Exploration expense	30	1.01	30	0.45
Interest and financing	(9)	0.43	(9)	0.23
<b>Funds from operations / Corporate netback – 2017</b>	<b>2,496</b>	<b>22.77</b>	<b>4,833</b>	<b>24.05</b>

### Second Quarter 2016 to Second Quarter 2017 Changes in Funds from Operations



Funds from operations increased \$2,347,000 in the second quarter of 2017 to \$2,496,000 from \$149,000 generated in the second quarter of 2016. The increase reflects higher revenue due to increased production volumes, higher commodity prices and lower G&A, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and decreased interest income.

### First Half 2016 to First Half 2017 Changes in Funds from Operations



Funds from operations increased \$4,567,000 in the first half of 2017 to \$4,833,000 from \$266,000 generated in the first half of 2016. The increase reflects higher revenue due to increased production volumes, higher commodity prices and lower G&A, partially offset by higher royalties, operating and transportation costs associated with increased production volumes, and decreased interest income.

## Income (loss)

(\$000, except per share amounts)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Income (loss)	<b>594</b>	(692)	(186)	<b>607</b>	(1,445)	(142)
Per share – basic	<b>0.01</b>	(0.01)	(200)	<b>0.01</b>	(0.01)	(200)
Per share – diluted	<b>0.01</b>	(0.01)	(200)	<b>0.01</b>	(0.01)	(200)

For the three and six months ended June 30, 2017, Altura generated income of \$594,000 and \$607,000, respectively, compared to losses of \$692,000 and \$1,445,000 in the same periods of 2016. The increased income of \$1,286,000 and \$2,052,000 is primarily attributed to increased revenue, lower G&A and an increased gain on disposition of assets, partially offset by increased operating, transportation, and DD&A associated with the Corporation's production growth.

## Capital Expenditures

(\$000)	Three months ended June 30			Six months ended June 30		
	2017	2016	% Change	2017	2016	% Change
Geological and geophysical	<b>53</b>	169	(69)	<b>90</b>	205	(56)
Land	<b>91</b>	70	30	<b>1,338</b>	119	>500
Drilling and completions	<b>2,191</b>	1,800	22	<b>7,378</b>	1,800	310
Workovers	<b>320</b>	20	>500	<b>508</b>	40	>500
Equipping and facilities	<b>1,046</b>	165	>500	<b>3,226</b>	212	>500
Other	<b>127</b>	70	81	<b>240</b>	122	97
	<b>3,828</b>	2,294	67	<b>12,780</b>	2,498	412
Property disposition	<b>(750)</b>	-	-	<b>(750)</b>	-	-
Total capital expenditures	<b>3,078</b>	2,294	34	<b>12,030</b>	2,498	382

In the second quarter of 2017, Altura invested a total of \$3.8 million on capital expenditures and divested undeveloped land in the Provost area for \$750,000. Drilling and completion projects in the quarter included completions on five wells that were drilled in the first quarter of 2017. Equipping and facilities capital related to equipping and tie-ins for the six wells that were drilled in the first quarter of 2017 and facility upgrades on the multi-well battery in the Eyehill area.

In the first half of 2017, Altura invested a total of \$12.0 million on capital expenditures including; \$10.6 million on drilling, completing, and equipping and facilities; \$1.4 million on land, geological and geophysical costs and \$0.8 million on workovers and other, partially offset by the property disposition for \$0.8 million. In the first half of 2017, the Corporation has drilled, completed and equipped six horizontal wells including: one Rex oil well at Leduc-Woodbend; three Sparky oil wells at Eyehill; one Rex oil well at Killam; and one Sparky oil well in the Macklin area on the Saskatchewan side of the border.

## Decommissioning Liability

At June 30, 2017, Altura recorded a decommissioning liability of \$6.8 million (December 31, 2016 - \$6.2 million) for the future abandonment and reclamation of Altura's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been discounted at the risk-free rate of 2.1 percent (December 31, 2016 – 2.3 percent). Abandonment cost estimates are derived from both third-party industry and government sources and operational knowledge of the properties. The estimates are reviewed quarterly and adjusted as new information regarding the liability is determined. The increase in liability is due to new wells drilled in the first half of 2017.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the six months ended June 30, 2017, accretion expense totaled \$71,000 (June 30, 2016 - \$16,000).

The Corporation's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 8.0 at June 30, 2017. The LMR is the ratio of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Corporation to pay a deposit to the AER.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **Working Capital**

The Corporation had a working capital surplus of \$1.2 million at June 30, 2017, compared to \$8.5 million at December 31, 2016. At June 30, 2017, the major components of Altura's current assets were cash and cash equivalents (35 percent), and revenue (60 percent) to be received from its oil and gas marketers in respect to June 2017 production. Altura routinely assesses the financial strength of its marketers and joint interest partners and has determined all past due accounts receivable to be collectable. Current liabilities largely consist of trade and joint interest payables (28 percent) and accrued liabilities (72 percent) related to the Corporation's operations. The Corporation manages its working capital using a combination of its funds from operations and advances under its revolving operating demand loan credit facility and, if applicable, funds from debt and equity issuances and asset divestitures. Altura invests its excess cash in a short-term interest bearing account with its lender.

### **Credit Facility**

The Corporation has a revolving operating demand loan (the "Credit Facility") with a Canadian bank (the "Lender"). Altura's Credit Facility was reviewed in May 2017 based on the Corporation's December 31, 2016 reserve report and the borrowing base was increased to \$7.5 million. The Credit Facility is payable on demand and bears interest at a rate equal to the Lender's prime rate plus 1.50 percent per annum on the outstanding principal, payable monthly. The Corporation is subject to certain reporting and financial covenants that require the Corporation to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility may be added to current assets. At June 30, 2017, the working capital ratio under the terms of the Credit Facility was calculated to be 5.6:1 (December 31, 2016 – 5.9:1). The next review date for the Credit Facility has been set for May 31, 2018.

As at June 30, 2017, the Credit Facility was undrawn, however, the Corporation had outstanding letters of credit for \$201,000 (December 31, 2016 - \$50,000).

### **Shareholders' Equity**

At June 30, 2017, there were 108,920,973 common shares outstanding, 9,749,879 performance warrants outstanding and 5,570,000 stock options outstanding. The number of common shares, performance warrants and stock options outstanding remains unchanged from December 31, 2016.

At August 9, 2017, the number of common shares, performance warrants and stock options outstanding remain unchanged from June 30, 2017.

### **Liquidity**

At June 30, 2017, Altura had a working capital surplus of \$1.2 million, no debt and \$7.5 million available on its Credit Facility. Altura expects to have adequate liquidity to fund its remaining 2017 capital expenditure forecast of \$8.0 million through a combination of available cash on hand, funds from operations and the \$7.5 million Credit Facility. Altura's ability to increase its borrowing capacity is based on its reserves value as determined by its external reserves evaluator.

### **Contractual Obligations and Commitments**

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

## SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>OPERATING</b>								
Average daily production								
Light and medium oil (bbls/d)	652	539	627	472	259	330	313	271
Heavy oil	346	309	195	18	12	11	7	4
Natural gas (mcf/d)	1,098	909	890	473	289	348	374	267
NGLs (bbls/d)	25	16	17	6	4	7	6	8
Total (boe/d)	1,205	1,015	988	574	323	405	389	328
Average realized sales price								
Light and medium oil (\$/bbl)	50.69	53.52	51.37	46.04	44.60	28.30	39.67	45.58
Heavy oil (\$/bbl)	45.36	46.23	44.54	37.68	35.43	20.57	29.86	37.40
Natural gas (\$/mcf)	3.03	2.96	3.34	2.53	1.53	1.96	2.59	3.05
NGLs (\$/bbl)	36.44	40.56	44.75	33.53	52.30	24.26	41.13	17.16
Total (\$/boe)	43.93	45.76	45.20	41.41	39.08	25.65	35.66	41.12
<b>OPERATING NETBACK</b> (\$ per boe) <sup>(1)</sup>								
Petroleum and natural gas sales	43.93	45.76	45.20	41.41	39.08	25.65	35.66	41.12
Royalty expenses	(4.41)	(4.20)	(3.67)	(3.13)	(2.06)	(1.33)	(1.37)	(1.93)
Operating costs	(10.52)	(9.96)	(8.99)	(7.53)	(11.45)	(9.67)	(9.97)	(12.72)
Transportation costs	(2.71)	(2.26)	(2.52)	(2.73)	(2.88)	(2.81)	(2.76)	(2.47)
Operating netback <sup>(1)</sup>	26.29	29.34	30.02	28.02	22.69	11.84	21.56	24.00
<b>FINANCIAL</b> (\$000, except per share)								
Petroleum and natural gas sales	4,818	4,178	4,106	2,189	1,149	946	1,275	1,239
Funds from operations <sup>(1)</sup>	2,496	2,337	2,197	1,193	149	117	415	209
Per share – basic and diluted <sup>(1)</sup>	0.02	0.02	0.02	0.01	-	-	-	-
Cash flow from (used in) operating activities	2,269	2,794	1,683	763	28	(137)	265	(451)
Per share – basic and diluted	0.02	0.03	0.02	0.01	-	-	-	(0.01)
Income (loss)	594	13	264	(68)	(692)	(753)	(417)	(3,955)
Per share – basic and diluted	0.01	-	-	-	(0.01)	(0.01)	-	(0.05)
(\$000)								
Capital expenditures, net	3,078	8,952	6,945	8,049	2,294	204	1,667	160
Total assets	46,890	49,083	45,915	44,704	41,431	40,048	40,948	40,811
Working capital surplus	1,156	2,436	8,455	13,209	20,011	22,199	22,129	23,151
Shareholders' equity	38,336	37,468	37,182	36,632	36,410	36,870	37,326	37,205
Common shares outstanding (000)								
Weighted average for the period - basic	108,921	108,921	108,921	108,921	108,921	108,921	108,821	82,301
Weighted average for the period - diluted	109,082	109,289	108,921	108,921	108,921	108,921	108,821	82,301
Shares outstanding, end of period	108,921	108,921	108,921	108,921	108,921	108,921	108,921	107,901

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

Quarter over quarter increases in revenue from the first quarter of 2016 to the second quarter of 2017 are the result of both an increase in oil and gas volumes sold as well as an increase in Altura's realized price for most quarters.

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

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

## **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 funds from operations during the reporting periods.

## **RELATED PARTY TRANSACTIONS**

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

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

## **RISK FACTORS & RISK MANAGEMENT**

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

## **IMPACT OF NEW ENVIRONMENTAL REGULATIONS**

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

## CHANGES IN ACCOUNTING POLICIES

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

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

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Altura on January 1, 2019 and the Corporation is currently evaluating the impact of the standard on Altura's financial statements.

## ADVISORIES

### Non-GAAP Measures

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

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

## **Oil and Gas Advisories**

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

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

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

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

## **Forward-looking Information**

This MD&A and second 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 second quarter report contains forward-looking information and statements pertaining to the 2017 capital expenditure budget, plans concerning the length and number of stages in ERH wells, plans concerning future water disposal facilities and battery at Leduc-Woodbend, expected date of resuming production at Killam, planned improved production rates at Eyehill, timing of planned gas gathering, emulsion and produced water disposal facilities at Leduc-Woodbend, expected cost reductions at Eyehill and Leduc-Woodbend and planned 2018 drilling in Macklin.

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

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

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

The forward-looking information and statements included in this MD&A and second quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation:

- changes in commodity prices;

- changes in the demand for or supply of Altura's products;
- unanticipated operating results or production declines;
- changes in tax or environmental laws, royalty rates or other regulatory matters;
- changes in development plans of Altura or by third party operators of Altura's properties,
- increased debt levels or debt service requirements;
- inaccurate estimation of Altura's oil and gas reserve and resource volumes;
- limited, unfavorable or a lack of access to capital markets;
- increased costs;
- a lack of adequate insurance coverage;
- the impact of competitors; and
- certain other risks detailed from time to time in Altura's public documents.

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