

MANAGEMENT'S REPORT

To the Shareholders of Altura Energy Inc.

Management's Responsibility on Financial Statements

The annual consolidated financial statements of Altura Energy Inc. as at and for the years ended December 31, 2019 and December 31, 2018 were prepared by management within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for the integrity of the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management. Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by the shareholders, have conducted an examination of the corporate and accounting records to express their audit opinion on the consolidated financial statements. The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

/s/ David Burghardt
President and Chief Executive Officer

/s/ Tavis Carlson
Vice-President, Finance and Chief Financial Officer

March 18, 2020
Calgary, Alberta



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altura Energy Inc.

Opinion

We have audited the consolidated financial statements of Altura Energy Inc. (the "Company"), which comprise:

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Jason Stuart Brown.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 18, 2020

CONSOLIDATED BALANCE SHEETS

As at

(\$000)	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	142	-
Accounts receivable (note 16)	1,819	650
Prepaid expenses and deposits	149	204
	2,110	854
Exploration and evaluation (note 7)	1,170	-
Property and equipment (note 8)	51,574	53,169
Right-of-use assets (notes 4 and 9)	199	-
Total assets	55,053	54,023
LIABILITIES		
Current liabilities		
Bank debt (note 10)	-	2,144
Accounts payable and accrued liabilities	2,305	3,515
Current portion of lease liabilities (notes 4 and 11)	48	-
Current portion of decommissioning liability (note 12)	15	15
Contract liability (note 6)	368	-
Fair value of financial instruments (note 16)	432	-
	3,168	5,674
Lease liabilities (notes 4 and 11)	194	-
Decommissioning liability (note 12)	5,363	5,756
Deferred taxes (note 15)	1,472	726
Total liabilities	10,197	12,156
SHAREHOLDERS' EQUITY		
Share capital (note 13)	37,712	37,712
Performance warrants (note 13e)	2,517	2,176
Contributed surplus	4,377	3,944
Retained earnings (deficit)	250	(1,965)
Total shareholders' equity	44,856	41,867
Total liabilities and shareholders' equity	55,053	54,023
Commitments (note 6)		

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Robert Maitland
Director

/s/ John McAleer
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

(\$000, except per share amounts)	2019	2018
REVENUE		
Petroleum and natural gas sales (note 14)	25,757	16,847
Royalties	(2,647)	(1,680)
Interest income	-	49
Realized gain on financial instruments	216	-
Unrealized loss on financial instruments (note 16)	(432)	-
	22,894	15,216
EXPENSES		
Operating	5,248	3,805
Transportation	2,214	866
General and administrative	1,624	2,104
Transaction costs on acquisition	-	14
Exploration expense	21	25
Share-based compensation (note 13)	576	786
Interest and financing charges	234	160
Depletion, depreciation and amortization (notes 8 and 9)	9,495	6,906
Accretion of decommissioning liability (note 12)	104	109
Loss (gain) on disposition of assets (note 6)	417	(2,978)
	19,933	11,797
Income before taxes	2,961	3,419
Deferred tax expense (note 15)	746	726
Net income and comprehensive income	2,215	2,693
Net income per share, (note 13d)		
Basic	0.02	0.02
Diluted	0.02	0.02

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

(\$000)	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2017	37,712	1,605	3,506	(4,658)	38,165
Share-based compensation expense (note 13)	-	469	317	-	786
Share-based compensation capitalized (note 13)	-	102	121	-	223
Net income for the year	-	-	-	2,693	2,693
Balance, December 31, 2018	37,712	2,176	3,944	(1,965)	41,867
Share-based compensation expense (note 13)	-	277	299	-	576
Share-based compensation capitalized (note 13)	-	64	134	-	198
Net income for the year	-	-	-	2,215	2,215
Balance, December 31, 2019	37,712	2,517	4,377	250	44,856

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(\$000)	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	2,215	2,693
Items not involving cash:		
Deferred tax expense (note 15)	746	726
Depletion, depreciation and amortization (notes 8 and 9)	9,495	6,906
Accretion of decommissioning liability (note 12)	104	109
Lease interest (note 11)	9	-
Share-based compensation (note 13)	576	786
Unrealized loss on financial instruments (note 16)	432	-
Loss (gain) on disposition of assets (note 6)	417	(2,978)
Transaction costs on property dispositions (note 6)	-	(411)
Decommissioning liabilities settled (note 12)	-	(17)
Change in non-cash working capital (note 18)	(1,000)	1,973
	12,994	9,787
CASH FLOW USED IN FINANCING ACTIVITIES		
Repayment of bank debt (note 10)	(2,144)	(2,108)
Repayment of principal relating to lease liabilities	(8)	-
	(2,152)	(2,108)
CASH FLOW USED IN INVESTING ACTIVITIES		
Property and equipment expenditures	(11,717)	(32,392)
Exploration and evaluation asset expenditures	(1,167)	(719)
Property acquisitions (note 6)	-	(3,597)
Property dispositions (note 6)	3,508	27,686
Change in non-cash working capital (note 18)	(1,324)	1,343
	(10,700)	(7,679)
CHANGE IN CASH AND CASH EQUIVALENTS	142	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	142	-
Cash interest paid	225	160

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2019 and 2018

1. REPORTING ENTITY

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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").

These financial statements were approved by the Board of Directors on March 18, 2020.

(b) Basis of Measurement and Principles of Consolidation

These financial statements have been prepared on a historical cost basis and include the accounts of Altura and its wholly-owned subsidiary. All inter-entity transactions have been eliminated.

(c) Functional and Presentation Currency

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

(d) Change in Presentation

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

(e) Use of Estimates and Judgement

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

The determination of a cash generating unit ("CGU") and whether an acquisition transaction constitutes a business combination is subject to management judgments. The recoverability of property and equipment and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

Management applies judgment in assessing the existence of indicators of impairment and impairment recovery based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The key estimates Altura applies in determining an acceptable range of recoverable amounts normally includes information on future commodity prices, expected production volumes, quantity of reserves, future development and operating costs, discount rates, and income taxes.

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate as discussed in note 4.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in these financial statements.

The amounts recorded for the depletion of property and equipment, the provision for decommissioning liability and the amounts used in the impairment calculations are based on estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the financial statements of future periods could be material.

The decommissioning liability amounts recorded are based on estimates of inflation rates, risk-free rates, timing of abandonments and future abandonment costs, all of which are subject to uncertainty. Actual results could differ as a result of using estimates.

Share-based compensation expense involves the estimate of the fair value of stock options and performance warrants at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the security subject to the option. The charge is measured using the Black-Scholes option pricing model, which could be replaced by a pricing model producing different results.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The reversal timing of temporary differences are based on management estimates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in net income (loss) in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

Altura follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, operating, transportation and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. Altura recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

Altura evaluates its arrangements with third parties and partners to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if Altura obtains control of the product delivered, which is indicated by Altura having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Altura acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents, if any, consist of cash on hand, deposits and term investments held with a financial institution with an original maturity of three months or less.

(c) Jointly owned assets

Many of the Corporation's oil and natural gas activities involve jointly owned assets. The financial statements include Altura's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

(d) Share-based compensation

The Corporation accounts for its share-based compensation plan using the fair value method, which is estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options and performance warrants granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options or performance warrants, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Forfeitures of stock options and performance warrants are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(e) Exploration and evaluation assets

Exploration and Evaluation ("E&E") costs incurred prior to acquiring the legal right to explore in an area are charged directly to net income (loss). Costs incurred after the legal right to explore is obtained, but before technical feasibility and commercial viability of the area has been established, are capitalized as E&E assets. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs and other directly attributable administrative costs.

Once an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment. The carrying value, net of any impairment, is then reclassified to property and equipment as a Developed and Producing ("D&P") asset. If an area is determined not to be technically feasible and commercially viable, or the Corporation discontinues its exploration and evaluation activity, any unrecoverable costs are charged to net income (loss).

Gains and losses on disposals of exploration and evaluation assets are determined by comparing the proceeds to the net carrying value of the properties and are recognized in net income.

(f) Property and equipment

Property and equipment, which include D&P assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. D&P assets include mineral lease acquisitions, geological and geophysical, drilling and completion, facility and production equipment, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Gains and losses on disposals of properties are determined by comparing the proceeds to the net carrying value of the properties and are recognized in net income.

(g) Depletion and depreciation

D&P and E&E assets, if producing, are separated into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

- (i) total estimated proved and probable reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;
- (ii) total capitalized costs, including capitalized decommissioning costs, plus estimated future development costs of proved and probable reserves; and
- (iii) relative volumes of petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Administrative assets are depreciated using the declining balance method over the useful lives of the assets.

(h) Impairment

Developed and Producing Assets

D&P assets are aggregated into CGUs for the purposes of impairment testing. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less costs of disposal or its value in use.

When the carrying value exceeds the recoverable amount an impairment loss is recognized in net income (loss).

Reversals of impairments are recognized when previously recorded impairment losses have decreased or no longer exist. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

Exploration and Evaluation Assets

E&E assets are assessed for impairment when E&E assets are transferred to development and production assets once an area is determined to be technically feasible and commercially viable, and any time that circumstances arise which suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the greater of fair value less costs of disposal or value in use.

(i) Financial instruments

Amortized Cost

Cash and cash equivalents, if any, accounts receivable, accounts payable and accrued liabilities, the contract liability and bank debt are measured at amortized cost. These classifications are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method.

Fair Value through Profit or Loss ("FVTPL")

Altura may enter into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. All risk management contracts are initially measured at fair value through profit or loss and are subsequently measured at fair value with changes in fair value recorded in net income. The fair values of these derivative instruments are based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

Impairment of Financial Assets

Impairment of financial assets is determined by measuring the assets' expected credit loss. Accounts receivable are due within one year and are not considered to have a significant financing component and a lifetime expected credit loss is measured at the date the accounts receivable are initially recognized.

(j) Decommissioning liabilities

The Corporation's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Altura recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a risk-free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in net income. Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(k) Leases

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

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

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

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

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

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

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

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

(l) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the

identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net income. Transaction costs associated with a business combination are expensed as incurred.

(m) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(n) Per share amounts

Basic per share amounts are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution from dilutive instruments.

(o) Interest income and expenses

Interest and financing charges include interest expense on borrowings, standby fees on the unutilized credit facility, letter of credit fees issued against the credit facility, renewal fees of the credit facility and leases. Interest income is recognized as it is earned.

(p) Share capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares, net of tax, are recognized as a deduction from equity.

4. CHANGES IN ACCOUNTING POLICIES

Newly Adopted Accounting Policy

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

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

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

Reconciliation of Commitments to Lease Liabilities

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

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

The additional disclosures required by IFRS 16 are detailed in notes 3, 9 and 11.

Future Changes in Accounting Policies

In October 2018, the IASB issued amendments to IFRS 3, "Business Combinations", that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. 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 is failed, then the assessment focuses on the existence of a substantive process. Altura has not early adopted the amendment.

5. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property and equipment and exploration and evaluation assets

The fair value of property and equipment recognized in a business combination, is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration and evaluation assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, contract liability and bank debt

The fair value of cash and cash equivalents, if any, accounts receivable, deposits, accounts payable and accrued liabilities, the contract liability and bank debt are estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2019 and December 31, 2018, the fair value of these balances approximated their carrying value due to their short term to maturity. The Corporation's bank debt bears interest at a floating rate and the margins charged by the lender are indicative of current credit spreads. Accordingly the fair market value approximates the carrying value.

(iii) Share-based payments

The fair value of share-based payments is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historical daily traded volatility), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield and the risk-free interest rate (based on government bonds).

The Corporation's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

6. ACQUISITIONS AND DISPOSITIONS

December 4, 2019 Asset Disposition

On December 4, 2019, Altura entered into a definitive agreement with an unrelated third party ("PrivateCo") for the sale of a 12.5 percent working interest in the Corporation's production, wells, lands and facilities for cash of \$7.0 million through two transactions.

The first transaction closed on December 4, 2019, whereby Altura divested a 7.0 percent working interest for cash of \$3,508,000 (the "7% Asset Disposition"). The agreement provides that Altura will pay PrivateCo's 7.0 percent interest in a well to be drilled by March 31, 2020 and a 7.0 percent interest in the completion of an additional well (the "Contract Liability"). Altura estimates the Contract Liability to be \$368,000 as at December 31, 2019.

Altura recorded \$85,000 to E&E asset dispositions, \$3,942,000 to D&P asset dispositions and reduced the decommissioning liability by \$470,000 associated with the 7% Asset Disposition and recorded a loss on disposition of \$417,000 for the year ended December 31, 2019.

The agreement committed Altura to the following:

1. Drill, complete and equip or abandon a horizontal well in the Entice area of Alberta by March 31, 2020. Altura fulfilled this commitment in March 2020.
2. Spud a second horizontal well by December 31, 2020. On or before October 30, 2020, Altura and PrivateCo shall meet and review the production information and other data from the first Entice well. If it is mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Entice area. If not mutually agreed that the drilling of a second well at Entice is warranted, Altura will select a location for the drilling of a horizontal well in the Leduc-Woodbend area. If the second well is drilled in the Entice area, PrivateCo will pay 7.0 percent of well costs and earn a 12.5 percent working interest in the well. If the second well is drilled in the Leduc-Woodbend area, PrivateCo will pay 12.5 percent of well costs and earn a 12.5 percent working interest in the well.
3. Within 10 business days of delivering the second well location notice to PrivateCo, Altura and PrivateCo shall enter into a purchase and sale agreement for the second transaction whereby Altura will divest of an additional 5.5 percent working interest in the Corporation's production, wells, lands and facilities as at that date for cash of \$3.5 million. Proceeds will be used to fund the second well.
4. In the event a second well is drilled at Entice and both parties agree to drill a third well at Entice, the agreement provides for a third transaction whereby Altura will divest of an additional 4.0 percent working interest in the Corporation's production, wells, lands and facilities as at that date for cash of \$3.0 million. Proceeds would primarily be used to drill a third horizontal well at Entice on or before December 31, 2021. PrivateCo would pay 12.5 percent of well costs and earn a 16.5 percent working interest in the well.

December 21, 2018 Asset Acquisition

On December 21, 2018 Altura closed the acquisition of a producing petroleum and natural gas asset in the Leduc-Woodbend area of Alberta for cash consideration of \$1.0 million. The acquisition was completed to increase Altura's working interest in certain assets and to further its growth strategy in the Leduc-Woodbend area. The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired, and the liabilities assumed were recorded at fair value.

The acquired asset's contribution to revenues and operating income since December 21, 2018 is insignificant. Had the acquisition closed on January 1, 2018, estimated pro forma revenues would have been \$17.6 million and estimated income before taxes would have been \$3.6 million for the year ended December 31, 2018. The pro forma revenues and net income before taxes are estimates and may not be representative of the results had the acquisitions actually occurred on January 1, 2018.

August 2018 Asset Disposition

In August 2018, the Corporation divested a non-core property with a net book value of \$nil for \$10,000. Altura reduced the decommissioning liability by \$129,000 and recorded a gain of \$139,000 on the disposition in the year ended December 31, 2018.

July 31, 2018 Asset Acquisition

On July 31, 2018 Altura closed the acquisition of a producing petroleum and natural gas asset in the Leduc-Woodbend area of Alberta for cash consideration of \$2.6 million. The acquisition was completed to further Altura's growth strategy in the Leduc-Woodbend area. The acquisition was accounted for as a business combination using the acquisition method of accounting whereby the net assets acquired, and the liabilities assumed were recorded at fair value.

The asset acquired has contributed revenues of \$501,000 and operating income of \$54,000 since July 31, 2018. Had the acquisition closed on January 1, 2018, estimated pro forma revenues would have been \$17.9 million and estimated net income before taxes would have been \$3.7 million for the year ended December 31, 2018. The pro forma revenues and income before taxes are estimates and may not be representative of the results had the acquisitions actually occurred on January 1, 2018.

May 31, 2018 Asset Disposition

On May 31, 2018, Altura closed the disposition of the Corporation's crude oil and natural gas assets (the "Provost Disposition"), to an unrelated third party, in east central Alberta and Saskatchewan, which included the Eyehill, Eyehill South, Macklin, Wildmere, Killam and Provost Minor areas (the "Disposed Assets"). Consideration for the Disposed Assets totaled \$27,265,000 of cash, net of customary post-closing adjustments and transaction costs of \$411,000. Altura recorded \$1,071,000 to Exploration and Evaluation ("E&E") asset dispositions, \$29,325,000 to Developed and Producing ("D&P") asset dispositions and reduced the decommissioning liability by \$5,970,000 associated with the Disposed Assets. The Corporation recorded a gain of \$2,839,000 on the Provost Disposition in the year ended December 31, 2018.

7. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2017	4,517
Additions	719
Acquisition	603
Disposition	(1,071)
Transfer to property and equipment (note 5)	(4,768)
Balance, December 31, 2018	-
Additions	1,224
Dispositions	(85)
Change in decommissioning costs	31
Balance, December 31, 2019	1,170

E&E assets consist of the Corporation's projects that have yet to be established as technically feasible and commercially viable. Additions represent Altura's share of costs incurred on E&E assets during the periods. E&E asset additions in the year ended December 31, 2019, include land costs, geological and geophysical costs and drilling costs related to a vertical stratigraphic well that was drilled and logged in a new area called Entice, south of Strathmore, Alberta. Altura capitalized cash and non-cash administrative costs directly attributable to E&E additions of \$209,000 in the year ended December 31, 2019 (2018 – \$nil).

8. PROPERTY AND EQUIPMENT

The following table reconciles Altura's property and equipment:

Cost (\$000)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2017	62,100	48	62,148
Additions	32,830	130	32,960
Acquisitions	3,983	-	3,983
Dispositions	(47,622)	-	(47,622)
Transfers from E&E assets (note 4)	4,768	-	4,768
Change in decommissioning costs	4,145	-	4,145
Balance, December 31, 2018	60,204	178	60,382
Additions	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
Depletion, depreciation and impairment (\$000)			
Balance, December 31, 2017	(18,579)	(25)	(18,604)
Depletion, depreciation and amortization	(6,885)	(21)	(6,906)
Dispositions	18,297	-	18,297
Balance, December 31, 2018	(7,167)	(46)	(7,213)
Depletion, depreciation and amortization	(9,420)	(33)	(9,453)
Disposition	1,122	-	1,122
Balance, December 31, 2019	(15,465)	(79)	(15,544)
Carry amounts (\$000)			
As at December 31, 2018	53,037	132	53,169
As at December 31, 2019	51,460	114	51,574

Estimated future development costs of \$85.8 million (December 31, 2018 – \$95.5 million) associated with the development of the Corporation's proved and probable reserves were added to the Corporation's net book value in the depletion and depreciation calculation. Altura capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$556,000 in the year ended December 31, 2019 (2018 – \$732,000).

Impairment

At December 31, 2019, the Corporation determined there to be indicators of impairment in its Leduc-Woodbend CGU due to Altura recording a loss on disposition of assets in December 2019 and due to a decline in market capitalization in the second half of 2019. Altura has only one CGU. The impairment test was conducted at December 31, 2019 and no impairment was recognized as the estimated recoverable amount of the Leduc-Woodbend CGU exceeded its carrying value.

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. The estimated recoverable amount (determined to be value in use) 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 undeveloped land. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 19 percent.

The following table details the forward pricing used in estimating the recoverable amount of Altura's Leduc-Woodbend CGU at December 31, 2019:

	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	61.00	57.57	2.04	0.760
2021	63.75	62.35	2.32	0.770
2022	66.18	64.33	2.62	0.785
2023	67.91	66.23	2.71	0.785
2024	69.48	67.97	2.81	0.785
2025	71.07	69.72	2.89	0.785
2026	72.68	71.49	2.96	0.785
2027	74.24	73.20	3.03	0.785
2028	75.73	74.80	3.09	0.785
2029	77.24	76.43	3.16	0.785
2030	78.79	77.96	3.23	0.785
2031	80.36	79.52	3.29	0.785
2032	81.97	81.11	3.36	0.785
2033	83.61	82.73	3.43	0.785
2034	85.28	84.39	3.49	0.785
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.785

(1) Source: Independent external reserves evaluator. January 1, 2020 price forecast.

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

The Corporation performed a sensitivity analysis at December 31, 2019 and determined that a 1 percent increase (decrease) in the discount rate or a 5 percent decrease (increase) in the forecasted combined average realized prices would also not have resulted in an impairment charge as at December 31, 2019.

9. RIGHT-OF-USE ASSETS

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

Cost (\$000)	Total
Balance, January 1 and December 31, 2019 (note 4)	241
Depreciation (\$000)	
Balance, January 1, 2019	-
Depreciation	(42)
Balance, December 31, 2019	(42)
Carry amounts (\$000)	
As at January 1, 2019	241
As at December 31, 2019	199

10. 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 December 2019, in conjunction with the Asset Disposition (note 6), and the new borrowing base was revised to \$9.0 million from the previous \$10 million borrowing base. The Credit Facility is payable on demand and contains customary material adverse change clauses. The Credit Facility bears interest equal to the Lender's prime rate plus 1.75 percent per annum on the outstanding principal, payable monthly. The Credit Facility can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.75 million. A standby fee calculated at a rate of 0.35 percent per annum on the unused portion of the authorized amount is payable monthly.

The Credit Facility is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a \$30.0 million debenture with a first floating charge over all assets of the Corporation.

Altura is subject to certain reporting and financial covenants including:

- the Corporation is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facility and the fair value of any commodity contracts are excluded and the unused portion of the Credit Facility is added to current assets.
- the Corporation will, at all times, maintain hedging agreements covering no less than 300 bbl/d oil (Western Canadian Select) for no less than the succeeding nine-month period, on a rolling basis; and
- the Corporation will maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at December 31, 2019, the working capital ratio as defined was 4.00:1 (December 31, 2018 – 1.29:1) and the Corporation was compliant with the hedging covenant and the LLR covenant.

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

11. LEASE LIABILITIES

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

(\$000)	As at December 31, 2019
2020	48
2021–2022	111
2023–2024	119
Total lease payments	278
Impact of discounting	(36)
Lease liabilities	242
Payments due within one year	48
Payments due beyond one year	194

The following table reconciles lease liabilities:

(\$000)	Total
Balance, January 1, 2019 (note 4)	241
Lease interest (non-cash)	9
Lease interest (cash)	5
Total cash outflow	(13)
Balance, December 31, 2019	242

12. 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 December 31, 2019 to be approximately \$5.6 million (December 31, 2018 – \$5.9 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 1.76 percent (December 31, 2018 – 2.18 percent) and an inflation rate of 1.35 percent (December 31, 2018 – 2.0 percent) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year	5,771	6,578
Additions	274	923
Liabilities disposed	(470)	(6,099)
Liabilities acquired	-	1,055
Change in estimates ⁽¹⁾	(301)	800
Revaluation of liabilities acquired ⁽²⁾	-	2,422
Decommissioning liabilities settled	-	(17)
Accretion	104	109
Balance, end of year	5,378	5,771
Expected to be incurred within one year	15	15
Expected to be incurred beyond one year	5,363	5,756

(1) The change in estimates is due to a change in the discount and inflation rates totaling a credit of \$237,000 (December 31, 2018 - \$153,000 expense) and a change in abandonment and remediation cost estimates and future abandonment dates totaling a credit of \$64,000 (December 31, 2018 - \$647,000 expense).

(2) Amount relates to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisitions, decommissioning obligations were estimated using a credit adjusted discount rate of 10%.

13. SHARE CAPITAL

(a) Authorized:

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

(b) Issued and outstanding:

	Number of common shares	Amount (\$000)
Balance, December 31, 2017, December 31, 2018, and December 31, 2019	108,920,973	37,712

(c) Stock options:

The Corporation has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10 percent of the outstanding shares of Altura and the maximum term of options granted is five years. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. As at December 31, 2019 the Corporation may grant up to 10,892,097 stock options.

No stock options were exercised in the years ended December 31, 2019 and 2018.

A summary of the Corporation's outstanding stock options at December 31, 2019 is presented below:

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

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2019 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low (\$)	High (\$)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price (\$)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price (\$)
0.27	0.425	9,770,000	2.3	0.35	7,056,664	1.7	0.33
		9,770,000	2.3	0.35	7,056,664	1.7	0.33

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

	Year ended December 31, 2019	Year ended December 31, 2018
Weighted average fair value of options granted (\$)	0.23	0.22
Risk-free interest rate (%)	1.43	2.17
Expected life (years)	3.5	3.5
Expected volatility (%)	78.1	85.9
Estimated forfeiture rate (%)	5.0	5.0
Expected dividends (\$)	-	-

The Corporation's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the year ended December 31, 2019 was \$433,000 (2018 – \$438,000) of which \$134,000 was capitalized (2018 – \$121,000).

(d) Weighted average common shares:

	Year ended December 31, 2019	Year ended December 31, 2018
Basic	108,920,973	108,920,973
Diluted	109,885,889	110,411,519

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 year ended December 31, 2019, 4,200,000 stock options and 9,749,879 performance warrants were excluded from the weighted average number of common shares as they were anti-dilutive (2018 – 2,820,000 stock options and 9,749,879 performance warrants).

(e) Performance warrants:

A summary of the Corporation's outstanding performance warrants at December 31, 2019 is presented below:

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

The performance warrants vest and become exercisable as to one-third upon the 20-day weighted average trading price of the common shares equaling or exceeding \$0.675, an additional one-third upon the trading price equaling or exceeding \$0.901 and a final one-third upon the trading price equaling or exceeding \$1.124. The performance warrants expire on July 31, and August 28, 2020. As at December 31, 2019 no performance warrants are exercisable. On the grant date, the weighted average fair value of \$0.27 per performance warrant was determined using an adjusted Black Scholes model using the following assumptions: exercise price of \$0.449 per warrant; risk free rate of 0.95 percent; volatility of 110 percent; forfeiture rate of 0 percent; and expected life ranging from 3.0 to 5.0 years. The Corporation's share-based compensation relating to performance warrants for the year ended December 31, 2019 was \$341,000 (2018 – \$571,000) of which \$64,000 was capitalized (2018 – \$102,000). The fair value of the performance warrants is being expensed over the expected life.

14. 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)	Year ended December 31, 2019	Year ended December 31, 2018
Heavy oil	22,602	11,425
Light & medium oil	300	4,081
Natural gas	1,983	816
Natural gas liquids	872	525
Petroleum and natural gas sales	25,757	16,847

As at December 31, 2019, receivables for revenue were \$1,498,000, which are included in accounts receivable (December 31, 2018 - \$108,000 included in accounts receivable and \$41,000 included in accounts payable and accrued liabilities).

15. INCOME TAXES

The provision for income tax in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rates to the Corporation's income before taxes. This difference results from the following items:

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Income before taxes	2,961	3,419
Combined federal and provincial income tax rate	26.5%	27.0%
Computed income tax expense	785	923
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	164	237
Non-deductible expenses	2	2
Change in estimates and other	(7)	(23)
Change in corporate tax rate	(198)	-
Change in unrecognized deferred tax asset	-	(413)
Deferred tax expense	746	726

Altura's combined federal and provincial income tax rate declined to 26.5 percent in 2019 as a result of the Alberta corporate income tax rate decreasing from 12 percent to 11.5 percent for 2019.

The components of deferred income tax assets and liabilities are as follows:

(\$000)	December 31, 2019	December 31, 2018
Deferred income tax liabilities:		
Property and equipment and E&E assets	(5,695)	(5,566)
ROU assets	(47)	-
Deferred income tax assets:		
Decommissioning liability	1,237	1,558
Fair value of financial instruments	108	-
Lease liabilities	57	-
Contract liability	92	-
Non-capital losses	2,754	3,258
Share issue costs	-	14
Other	22	10
Deferred tax liability	(1,472)	(726)

Altura has non-capital losses of \$12.0 million at December 31, 2019 that expire between 2025 and 2039.

16. FINANCIAL INSTRUMENTS

Altura is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Corporation, sets appropriate risk limits and controls, and monitors risks and market conditions and the Corporation's activities.

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 December 31, 2019, pertains to revenue for accrued December 2019 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. A significant portion of Altura's accounts receivable is carried by four marketing companies with sound financial positioning. At December 31, 2019, 25 percent, 21 percent, 16 percent and 11 percent of total outstanding accounts receivable pertains to these companies. Additionally, at December 31, 2019, 10 percent of total outstanding accounts receivable pertains to one 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 December 31, 2019. For the year ended December 31, 2019, the Corporation received approximately 26 percent, 20 percent and 20 percent of its revenue from three marketing companies (2018 – 28 percent, 20 percent and 11 percent of its revenue from three marketing companies).

At December 31, 2019, the Corporation's trade receivables have been aged as follows:

As at (\$000)	December 31, 2019	December 31, 2018
Current	1,674	263
31 – 60 days	7	151
61 – 90 days	85	47
> 90 days	53	189
Allowance for doubtful accounts	-	-
Total	1,819	650

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Altura's accounts receivable > 90 days relates to amounts owing from a joint interest partner and are considered collectible.

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, access to these external sources may change at any time and are subject to numerous factors. In addition, risk management contracts such as derivative financial instruments may be used to manage liquidity. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the credit facility, if any, are due on demand.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), foreign currency exchange risk and interest rate risk.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. A significant change in commodity prices can materially impact the Corporation's cash flows and borrowing base limit under its Credit Facility. Lower commodity prices may also reduce the Corporation's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States of America, but also by world events that dictate the levels of supply and demand.

Altura manages the risks associated with changes in commodity prices by entering into risk management contracts. At December 31, 2019, Altura held the following crude oil contracts:

						Fair Value at December 31, 2019 (\$'000)
Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	
Jan 1/20—Mar 31/20	Crude Oil	Fixed	300 bbls/d	WCS	CAD \$57.00	194
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WTI	CAD \$70.20	(182)
Apr 1/20—Jun 30/20	Crude Oil	Fixed	300 bbls/d	WCS-WTI Differential	CAD (\$28.00)	(134)
Jul 1/20—Sep 30/20	Crude Oil	Fixed	300 Bbls/d	WCS	CAD \$43.75	(240)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WTI	CAD \$71.35	(48)
Oct 1/20—Dec 31/20	Crude Oil	Fixed	300 Bbls/d	WCS-WTI Differential	CAD (\$24.00)	(22)
						(432)

At December 31, 2019, the crude oil contracts were fair valued with a liability of \$432,000 (December 31, 2018 - \$nil) recorded on the balance sheet.

If the forward price curves for Western Canadian Select increase or decrease by 10 percent, it is estimated that Altura's income before taxes would change by approximately \$565,000. The commodity price assumptions are based on management's assessment of reasonably possible changes in oil prices that could occur in the future. The sensitivity is hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The result of the sensitivity is not predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Altura for its petroleum and natural gas sales. The Corporation had no risk management contracts that would be affected by foreign currency changes in place at December 31, 2019.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation's credit facility is exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates. The Corporation had no risk management contracts that would be affected by interest rates in place at December 31, 2019.

If interest rates were to increase or decrease by one percent, it is estimated that Altura's net income would change by approximately \$28,000 for the year ended December 31, 2019 using the average monthly bank debt outstanding under Altura's Credit Facility for the year ended December 31, 2019.

17. CAPITAL MANAGEMENT

The Corporation's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Corporation considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The annual and updated budgets are approved by the Board of Directors.

The key measure that the Corporation utilizes in evaluating its capital structure is net debt to annualized adjusted funds flow.

Annualized Adjusted Funds Flow

Altura considers adjusted funds flow to be a key measure of performance as it demonstrates the Corporation's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Management believes that such a measure provides a useful assessment of Altura's business on a continuing basis by eliminating certain non-cash charges, transaction costs, if any, and actual settlements of decommissioning liabilities, the timing of which, in the opinion of management, is discretionary. Adjusted funds flow is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used.

Annualized adjusted funds flow for the fourth quarters of 2019 and 2018 is calculated as follows:

(\$000)	Three months ended December 31	
	2019	2018
Net loss	(56)	(984)
Adjusted for the following non-cash items		
Deferred tax expense (recovery)	33	(309)
Depletion, depreciation and amortization	1,899	1,918
Accretion of decommissioning liability	24	26
Share-based compensation	116	179
Loss (gain) on disposition of assets	417	(4)
Unrealized loss on financial instruments	530	-
Quarterly adjusted funds flow	2,963	826
Annualized adjusted funds flow	11,852	3,304

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 December 31, 2019 and 2018 is summarized as follows:

(\$000)	December 31, 2019	December 31, 2018
Current assets	(2,110)	(854)
Current liabilities	3,168	5,674
Working capital deficit	1,058	4,820
Fair value of financial instruments in current liabilities	(432)	-
Current portion of lease liabilities	(48)	-
Current portion of decommissioning liability	(15)	(15)
Net debt	563	4,805

Net debt to annualized adjusted funds flow represents a measure of the time it is expected to take to pay off the debt if no further capital expenditures were incurred and if cash flow in the next year were equal to the amount in the most recent quarter annualized.

The Corporation monitors this ratio and endeavors to maintain it at, or below, 1:1 in a normalized commodity price environment. This ratio may increase at certain times as a result of acquisitions or low commodity prices. As shown below, the Corporation's ratio of net debt to annualized adjusted funds flow was 0.05:1 at December 31, 2019.

	December 31, 2019	December 31, 2018
Net debt (\$000)	563	4,805
Annualized adjusted funds flow (\$000)	11,852	3,304
Net debt to annualized adjusted funds flow (times)	0.05	1.45

The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There have been no changes in the Corporation's approach to capital management in 2019.

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Provided by (used in):		
Accounts receivable	(1,169)	1,647
Prepaid expenses and deposits	55	(100)
Accounts payable and accrued liabilities	(1,210)	1,703
Prepaid expenses acquired in acquisition	-	66
	(2,324)	3,316
Provided by (used in):		
Operating activities	(1,000)	1,973
Investing activities	(1,324)	1,343
	(2,324)	3,316

19. PERSONNEL EXPENSES

The aggregate compensation of key management personnel was as follows:

(\$000)	Year ended December 31, 2019	Year ended December 31, 2018
Salaries and benefits	1,661	1,560
Share-based compensation	764	1,001
	2,425	2,561
Capitalized portion of total compensation	(765)	(732)
	1,660	1,829

Altura's key management personnel include officers and directors of the Corporation. Salaries and benefits and share-based compensation include the capitalized and non-capitalized portion of these expenditures recorded in the financial statements during the respective periods.