## JOURNEY ENERGY INC.

**Condensed Consolidated Interim Statement of Financial Position** *(unaudited)*

*(in thousands of Canadian dollars)*

| | Note | **March 31, 2017** | December 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT | | | |
| Cash | | **1,138** | 1,584 |
| Accounts receivable | | **14,611** | 14,055 |
| Prepaid expenses and deposits | 21 | **3,892** | 1,614 |
| Total current assets | | **19,641** | 17,253 |
| | | | |
| Property, plant and equipment | 4 | **333,720** | 329,882 |
| Exploration and evaluation assets | 5 | **10,881** | 9,991 |
| Deferred tax asset | | **125,231** | 126,890 |
| Total assets | | **489,473** | 484,016 |
| | | | |
| **LIABILITIES** | | | |
| CURRENT | | | |
| Bank debt | 7 | **45,000** | 52,463 |
| Accounts payable and accrued liabilities | | **21,622** | 21,256 |
| Deferred lease obligation | | **62** | 62 |
| Derivative contracts | 16(b) | **3,695** | 11,304 |
| Decommissioning liabilities | 9 | **1,869** | 2,025 |
| Total current liabilities | | **72,248** | 87,110 |
| | | | |
| Promissory notes | 8 | **28,039** | 27,953 |
| Deferred lease obligation | | **373** | 388 |
| Derivative contracts | 16(b) | **306** | 1,434 |
| Decommissioning liabilities | 9 | **150,597** | 147,271 |
| Total liabilities | | **251,563** | 264,156 |
| | | | |
| **EQUITY** | | | |
| Share capital | 10 | **382,041** | 368,428 |
| Contributed Surplus | | **27,221** | 24,628 |
| Warrants | 11 | **-** | 2,076 |
| Deficit | | **(171,352)** | (175,272) |
| Total equity | | **237,910** | 219,860 |
| Total liabilities and equity | | **489,473** | 484,016 |
| Commitments | 18 | | |

*See accompanying notes.*

**APPROVED BY THE BOARD**

***"Signed"* Wieland Wettstein, Director**

***"Signed"* Alex G. Verge, Director**

**JOURNEY ENERGY INC.**

**Condensed Consolidated Interim Statement of Comprehensive Income (Loss)**

**For the three months ended March 31, 2017 and 2016**

*(unaudited) (in thousands of Canadian dollars, except per share data)*

| | Note | 2017 | Restated 2016 (Note 20) |
|---|---|---|---|
| **REVENUE** | | | |
| Petroleum and natural gas sales | | **26,690** | 18,055 |
| Royalties | | **(3,104)** | (2,227) |
| Net Revenue | | **23,586** | 15,828 |
| **EXPENSES** | | | |
| Operating | | **11,170** | 10,142 |
| Transportation | | **360** | 344 |
| Gain on derivative contracts | 16(b) | **(7,559)** | (1,679) |
| General and administrative | | **2,931** | 3,862 |
| Share based compensation | 12 | **436** | 724 |
| Exploration and evaluation | 5 | **114** | 124 |
| Loss on disposal of assets | | **658** | - |
| Depletion and depreciation | 4 | **7,773** | 7,524 |
| Finance expenses | 13 | **2,123** | 1,783 |
| Total expenses | | **18,006** | 22,824 |
| **NET INCOME (LOSS) BEFORE TAXES** | | **5,580** | (6,996) |
| **TAXES** | | | |
| Deferred income tax expense (recovery) | 14 | **1,660** | (1,606) |
| **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** | | **3,920** | (5,390) |
| **NET INCOME (LOSS) PER SHARE** | 15 | | |
| Basic | | **0.09** | (0.12) |
| Diluted | | **0.09** | (0.12) |

*See accompanying notes.*

## JOURNEY ENERGY INC.

**Condensed Consolidated Interim Statement of Changes in Equity** *(unaudited)*
*(in thousands of Canadian dollars)*

| | Share Capital | Contributed Surplus | Warrants | Deficit | Total Equity |
|---|---|---|---|---|---|
| Balance, January 1, 2017 | 368,428 | 24,628 | 2,076 | (175,272) | 219,860 |
| Comprehensive income | - | - | - | 3,920 | 3,920 |
| Exercise warrants | 13,613 | 2,076 | (2,076) | - | 13,613 |
| Employee share options, value of services recognized | - | 522 | - | - | 522 |
| Settlement of RSU's | | (5) | | | (5) |
| **Balance, March 31, 2017** | **382,041** | **27,221** | **-** | **(171,352)** | **237,910** |

| Restated (Note 20) | Share Capital | Contributed Surplus | Deficit | Total Equity |
|---|---|---|---|---|
| Balance, January 1, 2016 | 368,254 | 21,439 | (227,865) | 161,828 |
| Comprehensive loss | - | - | (5,390) | (5,390) |
| Employee share options, value of services recognized | - | 829 | - | 829 |
| Balance, March 31, 2016 | 368,254 | 22,268 | (233,255) | 157,267 |

## JOURNEY ENERGY INC.

**Condensed Consolidated Interim Statement of Cash Flows** *(unaudited)*

**For the three months ended March 31, 2017 and 2016** *(in thousands of Canadian dollars)*

| | Note | 2017 | Restated 2016 (Note 20) |
|---|---|---|---|
| **CASH FLOWS PROVIDED BY (USED IN) THE FOLLOWING ACTIVITIES:** | | | |
| **OPERATING** | | | |
| Net income (loss) | | **3,920** | (5,390) |
| Adjustments for: | | | |
| Unrealized loss (gain) on derivative contracts | 16(b) | **(8,737)** | 1,146 |
| Share based compensation | 12 | **436** | 724 |
| Depletion and depreciation | 4 | **7,773** | 7,524 |
| Loss on disposal of assets | | **658** | - |
| Accretion of decommissioning liabilities | 9 | **815** | 807 |
| Accretion of promissory notes | 8 | **107** | - |
| Deferred income tax expense (recovery) | 14 | **1,660** | (1,606) |
| Exploration and evaluation expense | 5 | **114** | 124 |
| Decommissioning costs incurred | 9 | **(418)** | (94) |
| Cash flow provided by operating activities | | **6,328** | 3,235 |
| Changes in non-cash working capital | 17(a) | **(2,507)** | (2,230) |
| Total cash flow provided by operating activities | | **3,821** | 1,005 |
| **FINANCING** | | | |
| Changes in bank debt | | **(7,463)** | 56 |
| Deferred financing charge | | **-** | (56) |
| Settlement of RSU's | | **(5)** | - |
| Issuance of share capital | 10 | **13,613** | - |
| Changes in non-cash working capital | 17(a) | **(21)** | 56 |
| Total cash flow provided by financing activities | | **6,124** | 56 |
| **INVESTING** | | | |
| Additions to property, plant and equipment | 4 | **(6,857)** | (3,016) |
| Additions to exploration and evaluation assets | 5 | **(740)** | (88) |
| Additions to administrative assets | 4 | **(72)** | (2) |
| Acquisition of property, plant and equipment and exploration and evaluation assets | | **(2,851)** | (613) |
| Disposition of property, plant and equipment and exploration and evaluation assets | | **105** | - |
| Changes in non-cash working capital | 17(a) | **24** | (1,433) |
| Total cash flow provided by investing activities | | **(10,391)** | (5,152) |
| **NET DECREASE (INCREASE) IN BANK INDEBTEDNESS** | | **(446)** | (4,091) |
| **CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD** | | **1,584** | (688) |
| **CASH (BANK INDEBTEDNESS), END OF PERIOD** | | **1,138** | (4,779) |
| Supplementary cash flow information | 17 (b) | | |

*See accompanying notes.*

## 1. INCORPORATION AND NATURE OF BUSINESS

Journey Energy Inc. ("Journey" or "the Company"), is a publicly traded company engaged in the exploration, development and production of crude oil and natural gas in the province of Alberta, Canada. Journey's shares trade on the Toronto Stock Exchange.

These condensed consolidated financial statements present the results of operations for the Journey group of entities. On September 30, 2016 Journey's principal shareholder, Infra-PSP Canada Inc. ("PSP") sold 75% of its holding in Journey to Maple Investments Ltd. ("MIE"). After the sale MIE held 37.4% and PSP holds 12.4% of the common shares of the Company.

The registered address of Journey is 4300, 888 3rd Street SW Calgary, Alberta, Canada and the corporate head office is located at 700, 517-10th Avenue SW, Calgary, Alberta, Canada.

## 2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements, the "Financial Statements", including prior year comparative information, have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting using policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), that are applicable to interim financial statements. These Financial Statements have been prepared following the same accounting policies and method of computation as the audited annual consolidated financial statements for the year ended December 31, 2016. Certain information and disclosures normally included in the notes to the audited annual consolidated statements have been condensed. Accordingly, these Financial Statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with IFRS as issued by the IASB. These Financial Statements for the period ended March 31, 2017 were authorized for issuance in accordance with a resolution of the audit committee of the Board of Directors on May 8, 2017.

## 3. SIGNIFICANT ACCOUNTING POLICIES

During the three months ended March 31, 2017 the Company did not adopt any new or amended accounting standards or interpretations.

Future Changes in Accounting Standards

There were no new or amended accounting standards or interpretations issued during the period ended March 31, 2017 that will affect the Company's future reporting periods. A summary of accounting standards and interpretations that will have an impact on future reporting periods of the Company are described in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2016.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Petroleum and natural gas properties | Administrative | Total |
|---|---|---|---|
| Balance, January 1, 2016 | 1,399,327 | 4,189 | 1,403,516 |
| Additions | 15,730 | 18 | 15,748 |
| Acquisition of property, plant and equipment | 10,803 | - | 10,803 |
| Changes in decommissioning obligations | (5,408) | - | (5,408) |
| Capitalized share-based compensation | 535 | - | 535 |
| Dispositions of property, plant and equipment | (261,729) | - | (261,729) |
| Transfer from exploration and evaluation assets | 133 | - | 133 |
| Balance, December 31, 2016 | 1,159,391 | 4,207 | 1,163,598 |
| Additions | 6,857 | 72 | 6,929 |
| Acquisition of property, plant and equipment | 2,962 | - | 2,962 |
| Changes in decommissioning obligations | 2,437 | - | 2,437 |
| Capitalized share-based compensation | 86 | - | 86 |
| Disposition of property, plant and equipment | (2,499) | - | (2,499) |
| **Balance, March 31, 2017** | **1,169,234** | **4,279** | **1,173,513** |

| | Petroleum and natural gas properties | Administrative | Total |
|---|---|---|---|
| **Accumulated depletion, depreciation and impairment losses** | | | |
| Balance, January 1, 2016 | (1,136,196) | (3,610) | (1,139,806) |
| Provision for the year | (27,833) | (175) | (28,008) |
| Disposals | 253,052 | - | 253,052 |
| Impairment | (22,347) | - | (22,347) |
| Impairment reversal/change in estimate | 103,393 | - | 103,393 |
| Balance, December 31, 2016 | (829,931) | (3,785) | (833,716) |
| Provision for the period | (7,733) | (40) | (7,773) |
| Disposals | 1,696 | - | 1,696 |
| **Balance, March 31, 2017** | **(835,968)** | **(3,825)** | **(839,793)** |

| | Petroleum and natural gas properties | Administrative | Total |
|---|---|---|---|
| **Carrying Amounts, as at** | | | |
| January 1, 2016 | 263,131 | 579 | 263,710 |
| December 31, 2016 | 329,460 | 422 | 329,882 |
| **March 31, 2017** | **333,266** | **454** | **333,720** |

Future development costs on proved plus probable undeveloped reserves of $161,128 (December 31, 2016 - $166,915) were included in the depletion calculation. During the period ended March 31, 2017, the Company capitalized $263 (December 31, 2016 - $1,049) in salaries, wages and benefits, and $86 (December 31, 2016 – $535) related to share based compensation that was directly related to development drilling activities.

Journey disposed non-core properties in the three month period ended March 31, 2017 for cash proceeds of $105 (2016 – nil) which resulted in a loss of $658 recorded in the comprehensive statement of income (loss).

## 5. EXPLORATION AND EVALUATION ASSETS

| | $ |
|---|---|
| Balance, January 1, 2016 | 15,436 |
| Additions | 507 |
| Acquisitions | 117 |
| Disposals | (1,033) |
| Transfer to property, plant and equipment | (133) |
| Lease expiries | (3,229) |
| Impairment | (1,674) |
| Balance, December 31, 2016 | 9,991 |
| Additions | 740 |
| Acquisitions | 264 |
| Lease expiries | (114) |
| **Balance, March 31, 2017** | **10,881** |

## 6. ACQUISITIONS

On January 25, 2017 the Company closed the acquisition of certain light oil and natural gas properties in the Crystal area, which complemented the company's existing assets in the area. The acquisition was accounted for as a business combination under IFRS 3. This acquisition contributed $255 to revenue and $123 to net income before tax for the post acquisition period. If the properties would have been acquired January 1, 2017 the effect on revenue would have been $309 and a $175 impact on net income before tax.

| **Fair value of net assets acquired** | **$** |
|---|---|
| Petroleum and natural gas properties | **2,578** |
| Exploration and evaluation assets | **247** |
| Decommissioning liability | **(88)** |
| | **2,737** |
| **Consideration:** | |
| Cash | **2,737** |
| | **2,737** |

## 7. BANK DEBT

As at March 31, 2017, Journey had a $90,000 (December 31, 2016 - $90,000) credit facility with a syndicate of banks. This facility was comprised of a production facility of $75,000 and a working capital facility of $15,000. The production and working capital facility are available on a revolving basis until the maturity of the facility on April 28, 2017. On April 28, 2017 the credit facility was renewed and the facility was increased to $125,000 which is comprised of a $15,000 working capital facility and a $110,000 production facility. The new facility has a term-out date of April 30, 2018. Upon a request from Journey, and subject to the syndicates' approval, the facility may be extended by one year until April 30, 2019. Advances under the facilities are available by way of prime rate loans with interest rates of between 1.0 percent and 4.5 percent over the banks' prime lending rates. In addition to these prime rate advances, the Company has access to bankers' acceptances and LIBOR loans, which are subject to stamping fees and margins ranging from 2.0 percent to 5.5 percent depending on the debt to cash flow ratio as calculated at the Company's immediately preceding quarter end. Standby fees are charged on the undrawn facilities at rates ranging from 0.5 percent to 1.375 percent depending on the debt to cash flow ratio as calculated at the Company's immediately preceding quarters' end.

The effective annualized interest rate on the credit facility, including renewal fees for the three month period ended March 31, 2017 was 4.5% (2016 – 5.3%). At March 31, 2017 the Company had an outstanding letter of credit in the amount of $375 that expires June 30, 2017.

The credit facilities are secured by a $500,000 fixed and floating charge debenture over the petroleum and natural gas properties and all other assets of Journey. The facilities are subject to a semi-annual review, at which time the lenders may re-determine the borrowing base. In addition, there are certain customary non-financial covenants in its credit facility agreement. Journey is in compliance with all covenants as at March 31, 2017 and December 31, 2016.

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Revolving credit facility | **45,000** | 52,463 |
| Balance, at end of period | **45,000** | 52,463 |

## 8. PROMISSORY NOTES

| | |
|---|---|
| Principal amount of Promissory Notes | 30,000 |
| Less: value allocated to Warrants | (2,076) |
| Fair value at date of issue on October 6, 2016 | 27,924 |
| Accretion expense | 101 |
| Unamortized deferred issuance expenses | (72) |
| Promissory Notes, December 31, 2016 | 27,953 |
| Accretion expense | **107** |
| Unamortized deferred issuance expenses | **(21)** |
| **Promissory Notes, March 31, 2017** | **28,039** |

## 9. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from the net ownership interests it has in petroleum and natural gas assets, which include: well sites, gathering systems, processing facilities and oil batteries. The Company estimates the total undiscounted, unescalated amount of cash flows required to settle its decommissioning liabilities at March 31, 2017 to be $162,338 (December 31, 2016 - $161,058) which will be incurred at various times between 2017 and 2111. The present value of the decommissioning liabilities incurred in the period ended March 31, 2017 was calculated using a risk free rate of 2.2% (December 31, 2016 – 2.2%) and an inflation factor of 2.0% (December 31, 2016 – 2.0%). Settlement of the liabilities will be funded from general corporate funds at the time of retirement or removal. As at March 31, 2017, no funds have been set aside to settle these obligations. Changes to decommissioning liabilities during the periods were as follows:

| | **March 31, 2017** | December 31, 2016 |
|---|---|---|
| Balance, at beginning of period | **149,296** | 167,160 |
| Liabilities acquired | **375** | 5,903 |
| Revaluation of liabilities acquired[(1)] | **691** | 16,821 |
| Liabilities disposed | **(39)** | (21,004) |
| Incurred on development activities | **369** | 501 |
| Liabilities settled | **(418)** | (526) |
| Revisions to estimates | **(532)** | (9,168) |
| Changes in discount rate | **1,909** | (13,562) |
| Accretion | **815** | 3,171 |
| Balance, at end of period | **152,466** | 149,296 |

(1) These amounts relate to the revaluation of acquired decommissioning liabilities using a risk-free discount rate. At the date of acquisition the acquired decommissioning liabilities were fair valued at the credit adjusted risk free rate.

## 10. SHARE CAPITAL

As at March 31, 2017, Journey has an unlimited number of voting common shares that may be authorized and issued. Each common share is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any dividends from the Company and in the assets in the event of termination or winding up of the Company. All common shares are of the same class with equal rights and privileges. In addition, the Company has an unlimited number of preferred shares with no par value available for issuance.

| COMMON SHARES | Shares | $ |
|---|---|---|
| Balance, January 1, 2016 | 29,088 | 261,050 |
| Transfer from contributed surplus on exercise of stock options | - | 152 |
| Issued on exercise of stock options and RSU's | 88 | 22 |
| Transfer from restricted voting shares (i) | 14,527 | 107,204 |
| Balance, December 31, 2016 | 43,703 | 368,428 |
| Issuance on warrant exercise (note 11) | 4,950 | 13,613 |
| **Balance, March 31, 2017** | **48,653** | **382,041** |

| RESTRICTED VOTING SHARES | Shares | $ |
|---|---|---|
| Balance, January 1, 2016 | 14,527 | 107,204 |
| Transfer to common shares (i) | (14,527) | (107,204) |
| **Balance, December 31, 2016 and March 31, 2017** | - | - |
| Total share capital, December 31, 2016 | 43,703 | 368,428 |
| **Total share capital, March 31, 2017** | **48,653** | **382,041** |

i. *Restricted voting shares*

On September 30, 2016 the principal shareholder disposed of the majority of their holdings and subsequently all the restricted voting shares reverted to common shares.

## 11. WARRANTS

As part of a private placement of Promissory Notes (Note 8), 4,950 share purchase warrants were issued.

| | Number | Amount |
|---|---|---|
| Balance, January 1, 2016 | - | - |
| Issued in private placement | 4,950 | 2,076 |
| Balance, December 31, 2016 | 4,950 | 2,076 |
| Exercised | (4950) | (2,076) |
| **Balance, March 31, 2017** | **-** | **-** |

The warrants were convertible into common shares of Journey on a one for one basis and had an exercise price of $2.75 per warrant. The warrants had an original expiry of October 6, 2018. On March 2, 2017 all the outstanding warrants were exercised and converted to common shares.

## 12. SHARE BASED COMPENSATION

a) Restricted Share Units ("RSU's") and Performance Share Units ("PSU's")

During the period $342 (2016 – $401) was charged to share based compensation expense for RSU's and PSU's previously issued.

The following table summarizes the RSU's and PSU's outstanding:

| | RSU's | PSU's |
|---|---|---|
| Balance at January 1, 2016 | 1,076 | 313 |
| Granted | 521 | 249 |
| Exercised | (139) | - |
| Forfeited | (150) | (58) |
| Balance at December 31, 2016 | 1,308 | 504 |
| Exercised | (4) | - |
| Forfeited | (48) | (14) |
| **Balance at March 31, 2017** | **1,256** | **490** |

b) Stock option plan

All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant date.

The following stock options were outstanding at the end of the respective periods:

| | **Stock options** | **Weighted average exercise price $** | **Number of options exercisable** |
|---|---|---|---|
| Balance, January 1, 2016 | 2,745 | 7.26 | 1,464 |
| Granted | 1,250 | 2.00 | - |
| Forfeited | (599) | 6.89 | (443) |
| Surrendered | (577) | 9.39 | (192) |
| Exercised | (12) | 1.86 | (12) |
| Balance at December 31, 2016 | 2,807 | 4.58 | 1,207 |
| Forfeited | (103) | 6.05 | (54) |
| **Balance at March 31, 2017** | **2,704** | **4.52** | **1,163** |

For the period ended March 31, 2017, nil (2016 – 30) stock options were granted to employees. During the period ended March 31, 2017, $158 (2016 - $246) was recorded as share based compensation expense and $86 (2016 - $105) was capitalized with respect to grants related to technical personnel. A corresponding credit to contributed surplus was made for these amounts.

c) Performance warrants

The following performance warrants were outstanding at the end of the respective periods:

| **Series A** | **Number** | **Weighted average Exercise price $** | **Weighted average fair value per warrant $** |
|---|---|---|---|
| Balance, January 1, 2016 | 197 | 6.00 | 3.78 |
| Forfeited | (46) | 6.00 | 3.78 |
| Balance at December 31, 2016 | 151 | 6.00 | 3.78 |
| Forfeited | (1) | 6.00 | 3.78 |
| **Balance at March 31, 2017** | **150** | **6.00** | **3.78** |

All 150 of the series A performance warrants were exercisable at March 31, 2017 (March 31, 2016 – 129).

| **Series B** | **Number** | **Weighted average Exercise price $** | **Weighted average fair value per warrant $** |
|---|---|---|---|
| Balance, January 1, 2016 | 388 | 7.00 | 3.46 |
| Forfeited | (90) | 7.00 | 3.46 |
| Balance at December 31, 2016 | 298 | 7.00 | 3.46 |
| Forfeited | (2) | 7.00 | 3.46 |
| **Balance at March 31, 2017** | **296** | **7.00** | **3.46** |

All 296 of the series B performance warrants were exercisable at March 31, 2017 (March 31, 2016 – 253).

| **Series C** | **Number** | **Weighted average Exercise price $** | **Weighted average fair value per warrant $** |
|---|---|---|---|
| Balance, January 1, 2016 | 372 | 11.14 | 5.23 |
| Forfeited | (33) | 12.00 | 5.01 |
| Balance at December 31, 2016 | 339 | 11.06 | 5.25 |
| Forfeited | (78) | 9.18 | 5.73 |
| **Balance at March 31, 2017** | **261** | **11.61** | **5.10** |

87 of the remaining balance of series C performance warrants were exercisable at March 31, 2017 (2016 – 124).

For the period ended March 31, 2017 $(64) (2016 - $182) was charged to share based compensation expense for warrants.

d) Share purchase warrants

The share purchase warrants outstanding are as follows:

| | Number | Weighted average Exercise price $ | Weighted average fair value per warrant $ |
|---|---|---|---|
| Balance, January 1, 2016 | 975 | 6.98 | 2.16 |
| Exercised | - | - | - |
| **Balance, December 31, 2016 and March 31, 2017** | **975** | **6.98** | **2.16** |

## 13. FINANCE EXPENSES

| | Three months ended March 31, **2017** | 2016 |
|---|---|---|
| Interest and bank charges | **1,201** | 976 |
| Accretion on decommissioning liabilities | **815** | 807 |
| Accretion on promissory Notes | **107** | - |
| Finance expenses | **2,123** | 1,783 |

## 14. DEFERRED TAXES

The provision for deferred income tax reflects an effective rate which differs from the expected, statutory, federal and provincial tax rates. Differences for the periods ended March 31, 2017 and 2016 are accounted for as follows:

| | Three months ended March 31, **2017** | 2016 |
|---|---|---|
| Net income (loss) before taxes | **5,580** | (6,996) |
| Expected income taxes, at the statutory rate of 27.0% (2016 – 27.00%) | **1,507** | (1,889) |
| Tax effect of non-deductible and non-taxable amounts related to: | | |
| Share based compensation expense | **123** | 199 |
| Accretion on term debt | **29** | - |
| Non-deductible items | **1** | - |
| Changes in enacted tax rates | **-** | 84 |
| Deferred income tax expense (recovery) | **1,660** | (1,606) |

## 15. PER SHARE AMOUNTS

The following table summarizes the weighted average common shares used in calculating income per share:

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Net income (loss) | **3,920** | (5,390) |
| Weighted average shares outstanding - basic | **45,298** | 43,615 |
| Weighted average shares outstanding - diluted | **46,064** | 44,615 |
| Net income (loss) per share – basic | **$ 0.09** | $ (0.12) |
| Net income (loss) per share – diluted | **$ 0.09** | $ (0.12) |

The basic net income (loss) per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding for the period. For the three month period ended March 31, 2017 the dilutive impact of RSU's, PSU's and stock options was an additional 766 weighted average common shares. For the three month period ended March 31, 2016 the dilutive impact of 1,280 RSU's, PSU's and stock options was omitted as it would have been ant-dilutive.

## 16. FINANCIAL INSTRUMENTS

### (a) Designation and valuation of financial instruments

Journey has elected to designate its financial instruments as follows:

| | **March 31, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | **Carrying value** | **Estimated fair value** | Carrying value | Estimated fair value |
| **Cash** | **1,138** | **1,138** | 1,584 | 1,584 |
| **Loans and receivables** | | | | |
| Accounts receivable | **14,611** | **14,611** | 14,055 | 14,055 |
| **Held-for-trading** | | | | |
| Derivative contracts – current liability | **(3,695)** | **(3,695)** | (11,304) | (11,304) |
| Derivative contracts – non-current liability | **(306)** | **(306)** | (1,434) | (1,434) |
| **Other financial liabilities** | | | | |
| Accounts payable and accrued liabilities | **(21,622)** | **(21,622)** | (21,256) | (21,256) |
| Promissory notes | **(28,039)** | **(30,000)** | (27,953) | (30,000) |
| Bank indebtedness and bank debt | **(45,000)** | **(45,000)** | (52,463) | (52,463) |

The fair value of bank debt is based upon level 2 inputs. The fair value of the bank debt approximates the carrying value as the debt carries a floating interest rate that approximates a market rate of interest. The fair value of Journey's commodity contracts are based upon Level 2 inputs, having been provided by the financial intermediary with whom the transactions were completed and tested by management for reasonableness based on current prices and market data.

### (b) Derivative contracts

Journey entered into the following financial derivative transactions to mitigate its exposure to fluctuations in commodity prices.

| Oil contracts | Volume bbls/d | Pricing point | Strike price per bbl | Term | Fair value |
|---|---|---|---|---|---|
| Swap | 1,000 | WTI NYMEX | CDN$60.00 | January 1, 2017 to December 31, 2017 | (2,359) |
| 3 way Collar | 1,000 | WTI NYMEX | CDN $39.50/ $60.00/$65.00 | October 1, 2016 to March 31, 2018 | (1,847) |
| **Total oil derivative contracts fair value** | | | | | **(4,206)** |

| Gas contracts | Volume GJ's/d | Pricing point | Strike price per GJ | Term | Fair value |
|---|---|---|---|---|---|
| Collar | 5,000 | AECO 7a | CDN$2.40-2.85 | November 1, 2016 to March 31,2018 | (246) |
| Swap | 5,000 | AECO 7a | CDN$3.00 | January 1, 2017 to December 31, 2017 | 451 |
| **Total gas derivative contracts fair value** | | | | | **205** |
| **Total derivative contracts fair value** | | | | | **(4,001)** |

A 10% change in oil and natural gas prices would have resulted in unrealized gains or losses on these commodity contracts impacting net income by $1,793.

The (gain) loss on derivative contracts for the periods ended March 31, 2017 and 2016 were as follows:

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | 2016 |
| Realized | **1,178** | (2,825) |
| Unrealized | **(8,737)** | 1,146 |
| | **(7,559)** | (1,679) |

**(c) Risks**

(i) Credit risk

A substantial portion of Journey's accounts receivable is with oil and gas marketing entities. Receivables from these marketers are normally collected on the 25th day of the month following calendar month in which production has occurred. Journey has not experienced any material collection issues with its petroleum and natural gas marketers. Journey generally extends unsecured credit to these companies; therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact Journey's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which it extends credit.

Journey is exposed to losses in the event of non-performance by counterparties to financial risk management contracts. Journey minimizes credit risk associated with possible non-performance of these financial instruments by entering into contracts with only investment grade counterparties, limiting exposure to any one counterparty and monitoring procedures around extending credit. Journey is managing this risk within its credit limit guidelines and procedures. While Management believes Journey's credit limit guidelines and procedures are sufficient to address credit risk, they are still subject to the volatility of the general financial credit environment. Journey's maximum credit risk is its entire receivable accounts.

| | **2017** | 2016 |
|---|---|---|
| Accounts receivable | **14,611** | 14,055 |
| Total | **14,611** | 14,055 |

For the period ended March 31, 2017, Journey determined that $239 (2016 - $270) of receivables from third parties were uncollectable and specifically provided for them in the provision for uncollectable accounts. At March 31, 2017 Journey assessed its provision for uncollectable accounts and increased it to $285 (2016 - $438). Accounts receivable balances outstanding greater than ninety days at March 31, 2017 was $1,644 (2016 – $1,161).

(ii) Interest rate risk

Borrowings under bank credit facilities are market-rate based (variable interest rates); thus exposing Journey to cash flow risk. A 1% change in interest rates, using bank debt balances at March 31, 2017 would result in a $329 change to net income.

(iii) Foreign exchange risk

The Company is exposed to the risk of changes in the Canadian/U.S. dollar exchange rate on sales of commodities that are directly correlated to U.S. dollar benchmark prices and derivative contracts denominated in U.S. dollars.

(iv) Liquidity risk

Journey is exposed to liquidity risk, which is the risk the entity may not be able to generate or obtain sufficient cash resources to meet its commitments as they become due. Journey mitigates this risk by management of cash and debt. Journey maintains short-term and long-term cash forecasting based on estimated production levels and estimated pricing in order to proactively enact changes to our capital spending to maintain a reasonable working capital balance. The Company is completed of the annual review of credit facility April 28, 2017. The currently available capacity on the Company's credit facility is currently assessed by Management to be sufficient to ensure all obligations will be met as they come due.

The following table details Journey's financial liabilities as at March 31, 2017:

| | **< 1year** | **1 - 2 years** | | **Total** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 21,622 | - | - | 21,622 |
| Derivative liabilities | 3,695 | 306 | - | 4,001 |
| Bank Debt | 45,000 | - | - | 45,000 |
| Promissory notes | - | - | 30,000 | 30,000 |
| Interest on bank debt and indebtedness | 1,017 | - | | 1,017 |
| Interest on promissory notes | 2,295 | 2,295 | 3,647 | 8,237 |
| | **73,629** | **2,601** | **33,647** | **109,877** |

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

*a) Changes in non-cash working capital*

| | Three months ended March 31, | |
|---|---|---|
| *Sources(uses)* | **2017** | 2016 |
| Accounts receivable | **(556)** | 1,005 |
| Prepaid expenses and deposits | **(2,278)** | 31 |
| Deferred financing charge | **(21)** | 56 |
| Deferred lease obligation | **(15)** | (16) |
| Accounts payable and accrued liabilities | **366** | (4,683) |
| | **(2,504)** | (3,607) |
| Relating to: | | |
| Operating activities | **(2,507)** | (2,230) |
| Financing activities | **(21)** | 56 |
| Investing activities | **24** | (1,433) |
| | **(2,504)** | (3,607) |

*b) Supplementary cash flow information*

| | Three months ended March 31, | |
|---|---|---|
| | **2017** | 2016 |
| Interest paid | **580** | 912 |

## 18. COMMITMENTS AND CONTINGENCIES

In addition to the commitments listed below, the Company has various indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant impact on the Company's financial statements.

*(a) Transportation and office lease costs*

The Company committed to firm-service contracts for the transportation of certain portions of its natural gas production. In addition, the Company has committed to future minimum payments under an operating lease that covers the rental of its head office space and a proportionate share of operating costs. The amounts in the table below are the minimum cash obligations that the Company must pay under the terms of the contracts.

| | **Total** | 2017 | 2018 - 2019 | 2020 - 2021 | Thereafter |
|---|---|---|---|---|---|
| Natural gas transportation | **759** | 279 | 309 | 137 | 34 |
| Operating leases | **13,019** | 1,433 | 3,761 | 3,756 | 4,069 |
| Total | **13,778** | 1,712 | 4,070 | 3,893 | 4,103 |

## 19. CAPITAL MANAGEMENT

Journey's capital structure is comprised of share capital, bank debt and working capital (current assets less current liabilities, but excluding the fair value of derivative contracts and decommissioning liabilities). The Company's objectives when managing its capital structure are to maintain financial flexibility so as to preserve access to markets and its ability to meet its financial obligations as they come due and to finance internally generated growth. To do this Management strives to optimize its cost of capital using an acceptable level of risk. To manage its capital structure Journey may: issue equity, issue term debt, adjust spending, use its credit facility to execute its capital program, or dispose of non-core assets.

Journey continually monitors its capital structure and makes adjustments to it as a result of drilling successes or failures, general economic conditions, the state of the petroleum industry and global events that may affect commodity prices. Journey prepares an annual budget, which is approved by the Board of Directors, and is updated quarterly for acquisition and divestiture activity, changes in commodity prices, and drilling successes. The budget is flexible and is re-visited at each board meeting to ensure the Company's finances are being managed in accordance with the Board objectives.

Journey remains committed to reducing bank debt and restoring the net debt to funds flow ratio to the internally desired level of approximately 1.5. Journey considers the most recent quarter's funds flows when deriving and adjusting its forecasts and assessing its net debt to funds flow ratio. The forecasts plan at least one year into the future. As at March 31, 2017 the net debt to annualized first quarter funds flow ratio was 2.9 times (2016 – 8.0). On April 28, 2017 (Note 24) Journey closed an acquisition that will initially increase its bank borrowings, however, the funds flows from the producing assets assist in bringing the net debt to cash flow ratio back to the desired level. In addition, Journey will defer discretionary capital spending throughout 2017 to assist in reducing the net debt to cash flow ratio.

Journey prepares an annual budget, which is approved by the Board of Directors, and is updated quarterly for acquisition and divestiture activity, changes in commodity prices, and drilling successes. The budget is flexible and is re-visited at each board meeting to ensure the Company's finances are being managed in accordance with the Board objectives. Below is the calculation of Journey's net debt to annualized funds flow for each of the three month periods ended March 31, 2017 and 2016.

| | **2017** | 2016 |
|---|---|---|
| Bank debt, plus bank indebtedness, less cash in bank | **43,862** | 94,779 |
| Principal amount of Promissory Notes | **30,000** | - |
| Accounts receivable | **(14,611)** | (13,661) |
| Prepaid expenses | **(3,892)** | (1,897) |
| Accounts payable and accrued liabilities | **21,622** | 27,300 |
| Deferred lease obligations | **435** | 497 |
| Net debt | **77,416** | 107,018 |
| First quarter funds flow | | |
| Cash provided by operating activities | **3,794** | 1,061 |
| Add (deduct): | | |
| Changes in non-cash working capital | **2,534** | 2,174 |
| Decommissioning costs incurred | **418** | 94 |
| Funds flow from operations | **6,746** | 3,329 |
| Four times funds flow for the quarter | **26,984** | 13,316 |
| Net debt to annualized funds flow (times) | **2.9** | 8.0 |

## 20. RESTATEMENT OF FIRST QUARTER 2016 RESULTS

As a result of a review of previous accruals, the Company determined that operating expenses were over-accrued in the first quarter of 2016 by $2,184. The first quarter comparative results have been restated in these March 31, 2017 financial statements to: i) reflect the reduction to operating expenses; ii) to correspondingly reduce accrued liabilities by $2,184; and iii) to reduce the deferred income tax recovery by $590. This results in a decrease of the previously reported first quarter net loss from $6,984 to the restated amount of $5,390, and a reduction in the net loss per basic and diluted share by $0.04 from $0.16 to $0.12. There was no impact of this restatement on cash flow from operating activities.

## 21. SUBSEQUENT EVENT

a) On April 28, 2017 the Company closed the previously announced strategic acquisition in its Central Alberta core area, which consists of approximately 2,000 boe/d of production for $35,600 before closing adjustments. As part of the structure of the deal Journey was required to pay a deposit of $1,782 on March 21, 2017. Also, on April 28, 2017 the Company closed the disposition of a non-core property in the Sylvan Lake area which represented approximately 185 boe/d of production for unadjusted proceeds of $5,000.

b) As part of the 2,000 barrel a day acquisition that closed April 28, 2017 the Company also assumed the following hedges on closing:

| Gas contract | Volume GJ's/d | Pricing point | Strike price per GJ | Term |
|---|---|---|---|---|
| Swap | 5,000 | AECO 7A | CDN$2.90 | April 1, 2017 to June 30, 2017 |
| Swap | 5,000 | AECO 7A | CDN$2.93 | July 1, 2017 to September 30, 2017 |
| Swap | 5,000 | AECO 7A | CDN$3.16 | October 1, 2017 to December 31, 2017 |
| Swap | 3,500 | AECO 7A | CDN$3.33 | January 1, 2018 to March 31, 2018 |
| Swap | 3,500 | AECO 7A | CDN$2.48 | April 1, 2018 to June 30, 2018 |
| Swap | 3,500 | AECO 7A | CDN$2.47 | July 1, 2017 to September 30, 2018 |
| Swap | 3,500 | AECO 7A | CDN$2.63 | October 1, 2018 to December 31, 2018 |