

JOURNEY ENERGY INC.**Condensed Consolidated Interim Statement of Financial Position (unaudited)***(in thousands of Canadian dollars)*

	Note	March 31, 2018	December 31, 2017
ASSETS			
CURRENT			
Cash		4,740	8,227
Accounts receivable		13,319	16,111
Prepaid expenses and deposits		1,809	1,319
Derivative contracts	15(b)	1,144	2,308
Total current assets		21,012	27,965
Property, plant and equipment	4	346,943	345,482
Exploration and evaluation assets	5	13,630	11,333
Derivative contracts	15(b)	14	-
Deferred tax asset		32,203	32,203
Total assets		413,802	416,983
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		28,710	28,290
Bank debt	6	67,000	69,922
Deferred lease obligation		62	62
Derivative contracts	15(b)	9,014	4,449
Decommissioning liabilities	8	2,515	2,476
Total current liabilities		107,301	105,199
Promissory notes	7	48,815	28,398
Deferred lease obligation		311	326
Derivative contracts	15(b)	384	16
Decommissioning liabilities	8	175,090	173,019
Total liabilities		331,901	306,958
EQUITY			
Share capital	9	290,367	386,017
Contributed Surplus		107,269	32,301
Warrants	10	1,702	-
Deficit		(317,437)	(308,293)
Total equity		81,901	110,025
Total liabilities and equity		413,802	416,983
Commitments	17		
<i>See accompanying notes.</i>			

APPROVED BY THE BOARD*"Signed"* Glenn A. Hamilton, Director*"Signed"* Alex G. Verge, Director

JOURNEY ENERGY INC.**Condensed Consolidated Interim Statement of Comprehensive (Loss) Income
For the three months ended March 31, 2018 and 2017***(unaudited) (in thousands of Canadian dollars, except per share data)*

	Note	2018	2017
REVENUE			
Petroleum and natural gas sales	16(c)	28,934	26,690
Processing and other income		976	465
Royalties		(3,983)	(3,104)
Gain (loss) on derivative contracts	15(b)	(8,188)	7,559
Net Revenue		17,739	31,610
EXPENSES			
Operating		13,800	11,635
Transportation		363	360
General and administrative		2,606	2,931
Share based compensation	11	568	436
Exploration and evaluation	5	122	114
(Gain) loss on disposal of assets		(1,827)	658
Depletion and depreciation	4	8,174	7,773
Transaction costs		37	-
Finance expenses	12	3,040	2,123
Total expenses		26,883	26,030
(LOSS) INCOME BEFORE TAXES		(9,144)	5,580
Deferred income tax expense	13	-	1,660
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME		(9,144)	3,920
NET (LOSS) INCOME PER SHARE			
Basic	14	(0.21)	0.09
Diluted		(0.21)	0.09

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, 2018	386,017	32,301	-	(308,293)	110,025
Comprehensive loss	-	-	-	(9,144)	(9,144)
Warrants issued	-	-	1,702	-	1,702
Normal course issuer bid	(95,674)	74,338	-	-	(21,336)
Share based compensation	-	660	-	-	660
Settlement of restricted share units	24	(30)	-	-	(6)
Balance, March 31, 2018	290,367	107,269	1,702	(317,437)	81,901

	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
Share based compensation	-	522	-	-	522
Exercise of warrants	13,613	2,076	(2,076)	-	13,613
Settlement of restricted share units	-	(5)	-	-	(5)
Balance, March 31, 2017	382,041	27,221	-	(171,352)	237,910

JOURNEY ENERGY INC.**Condensed Consolidated Interim Statement of Cash Flows** *(unaudited)***For the three month periods ended March 31, 2018 and 2017***(in thousands of Canadian dollars)*

	Note	2018	2017
CASH FLOWS PROVIDED BY (USED IN)			
THE FOLLOWING ACTIVITIES:			
OPERATING			
Net (loss) income		(9,144)	3,920
Adjustments for:			
Unrealized loss (gain) on derivative contracts	15(b)	6,083	(8,737)
Share based compensation	11	568	436
Depletion and depreciation	4	8,174	7,773
(Gain) loss on disposal of assets		(1,827)	658
Accretion of decommissioning liabilities	8	961	815
Accretion of promissory notes	7	166	107
Deferred income tax expense	13	-	1,660
Exploration and evaluation expense	5	122	114
Decommissioning costs incurred	8	(614)	(418)
Changes in non-cash working capital	16(a)	4,907	(2,507)
Cash flow provided by operating activities		9,396	3,821
FINANCING			
Changes in bank debt	6	(3,000)	(7,463)
Proceeds from issuance of promissory notes	7	22,000	-
Settlement of restricted share units		(6)	(5)
Normal course issuer bid		(21,336)	-
Issuance of share capital		-	13,613
Changes in non-cash working capital	16(a)	32	(21)
Cash flow (used in) provided by financing activities		(2,310)	6,124
INVESTING			
Additions to property, plant and equipment	4	(7,846)	(6,857)
Additions to exploration and evaluation assets	5	(485)	(740)
Additions to administrative assets	4	(22)	(72)
Acquisition of property, plant and equipment and exploration and evaluation assets		(2,148)	(2,851)
Disposition of property, plant and equipment and exploration and evaluation assets		2,128	105
Changes in non-cash working capital	16(a)	(2,200)	24
Cash flow used in investing activities		(10,573)	(10,391)
NET (DECREASE) TO CASH		(3,487)	(446)
CASH, BEGINNING OF PERIOD		8,227	1,584
CASH, END OF PERIOD		4,740	1,138
Supplementary cash flow information	16 (b)		
<i>See accompanying notes.</i>			

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2018 and 2017

(thousands, except per share data)

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 shares trade on the Toronto Stock Exchange.

These condensed consolidated interim financial statements present the results of operations for the Journey group of entities.

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”). 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, 2017, except as noted and disclosed in Note 3. 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, 2017, which were prepared in accordance with IFRS as issued by the IASB. These Financial Statements for the period ended March 31, 2018 were authorized for issuance in accordance with a resolution of the audit committee of the Board of Directors on May 8, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards adopted in 2018

a) IFRS 9 “Financial instruments”

On January 1, 2018, Journey adopted IFRS 9 “Financial instruments” as issued by the IASB. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in other comprehensive income instead of net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Journey does not currently apply hedge accounting. The standard was effective for annual periods beginning on January 1, 2018. The Company retrospectively adopted the standard on January 1, 2018. The adoption of IFRS 9 did not require any material adjustments to the consolidated financial statements.

b) IFRS 15 “Revenues From Contracts With Customers”

IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Expanded disclosure requirements are also part of the standard. IFRS 15 is effective for fiscal years beginning on or after January 1, 2018. The standard is required to be either adopted retrospectively in full or using a modified approach where prior numbers remain and the retrospective effect is an adjustment to retained earnings. The standard had no material impact on the Company’s financial statements aside from enhanced disclosure related to revenue (Note 16(c)). The standard resulted in a change in presentation between processing and other income and operating expenses with no impact on consolidated net income. The Company retrospectively adopted this standard on January 1, 2018.

Future Changes in Accounting Standards

There were no new or amended accounting standards or interpretations issued during the period ended March 31, 2018 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, 2017.

4. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas properties	Administrative	Total
Balance, January 1, 2017	1,159,391	4,207	1,163,598
Additions	29,842	84	29,926
Acquisition of property, plant and equipment	50,694	-	50,694
Changes in decommissioning obligations	14,903	-	14,903
Capitalized share-based compensation	568	-	568
Dispositions of property, plant and equipment	(18,416)	-	(18,416)
Balance, December 31, 2017	1,236,982	4,291	1,241,273
Additions	7,846	22	7,868
Acquisition of property, plant and equipment	-	-	-
Changes in decommissioning obligations	2,133	-	2,133
Capitalized share-based compensation	92	-	92
Disposition of property, plant and equipment	(912)	-	(912)
Transfer from exploration and evaluation assets	188	-	188
Balance, March 31, 2018	1,246,329	4,313	1,250,642

	Petroleum and natural gas properties	Administrative	Total
Accumulated depletion, depreciation and impairment losses			
Balance, January 1, 2017	(829,931)	(3,785)	(833,716)
Provision for the year	(34,712)	(141)	(34,853)
Disposals	12,044	-	12,044
Impairment	(50,328)	-	(50,328)
Impairment reversal/change in estimate	11,062	-	11,062
Balance, December 31, 2017	(891,865)	(3,926)	(895,791)
Provision for the period	(8,144)	(30)	(8,174)
Disposals	266	-	266
Balance, March 31, 2018	(899,743)	(3,956)	(903,699)

	Petroleum and natural gas properties	Administrative	Total
Carrying Amounts, as at			
December 31, 2017	345,117	365	345,482
March 31, 2018	346,586	357	346,943

Future development costs on proved plus probable undeveloped reserves of \$198,120 (December 31, 2017 - \$208,625) were included in the depletion calculation. During the period ended March 31, 2018, the Company capitalized \$291 (December 31, 2017 - \$1,180) in salaries, wages and benefits, and \$92 (December 31, 2017 - \$568) of share based compensation that was directly related to development drilling activities.

Journey disposed of property, plant and equipment assets in the three month period ended March 31, 2018 for cash proceeds of \$2,028 (2017 - \$105) which resulted in a gain (loss) of \$1,727 (2017 - \$(658)) recorded in the comprehensive statement of income (loss).

5. EXPLORATION AND EVALUATION ASSETS

Balance, January 1, 2017	9,991
Additions	2,664
Acquisitions	2,938
Disposals	(224)
Transfer to expense	(1,715)
Lease expiries	(1,988)
Impairment	(333)
Balance, December 31, 2017	11,333
Additions	485
Acquisitions	2,148
Disposals	(26)
Transfer to property, plant and equipment	(188)
Transfer to expense	(81)
Lease expiries	(41)
Balance, March 31, 2018	13,630

Journey disposed of exploration and evaluation assets in the three month period ended March 31, 2018 for cash proceeds of \$100 (2017 – nil) which resulted in a gain of \$100 (2017 - nil) recorded in the comprehensive statement of income (loss) as the assets had a nominal value to the Company as we retained other rights in the lands.

6. BANK DEBT

Journey renewed and amended its credit facility on April 30, 2018 and currently has a \$100,000 credit facility with a syndicate of banks (December 31, 2017 - \$125,000). This facility is comprised of a production facility of \$85,000 and a working capital facility of \$15,000. The production and working capital facilities are available on a revolving basis until their maturity on April 30, 2019. Upon a request from Journey, and subject to the syndicates' approval, the facilities may be extended by one year until April 30, 2020. If the facilities are not extended then the full amount is due and payable on 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 as of 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 fiscal quarters' end.

The effective annualized interest rate on the credit facility, including renewal fees for the period ended March 31, 2018 was 6.3% (March 31, 2017 – 4.5%). At March 31, 2018 the Company had an outstanding letter of credit in the amount of \$375 that expires June 30, 2018.

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 standard non-financial covenants in its credit facility agreement. Journey is in compliance with all covenants as at March 31, 2018 and December 31, 2017.

	March 31, 2018	December 31, 2017
Revolving credit facility	67,000	70,000
Deferred financing fees	-	(78)
Balance, at end of period	67,000	69,922

7. PROMISSORY NOTES

Promissory Notes (A), January 1, 2017	27,953
Accretion expense	447
Unamortized deferred issuance expenses	(2)
Promissory Notes (A), December 31, 2017	28,398
Accretion expense	119
Amortized deferred issuance expenses	6
Promissory Notes (A), March 31, 2018	28,523

The Promissory Notes (A) were issued on October 6, 2016 and bear interest at 7.65% per annum with interest payable semi-annually and mature on October 31, 2020.

On February 1, 2018 Journey entered into a second private placement whereby 22,000 units (the "Units") were issued at a price of \$1,000 per unit for aggregate proceeds of \$22,000. Each Unit is comprised of: (i) one promissory note (the "Promissory Notes (B)") with a par value of \$1 thousand per

Note, bearing interest at 7.65% per annum with interest payable semi-annually, and (ii) 105 common share purchase warrants (the “Warrants”). The Promissory Notes (B) mature on September 30, 2022 and all or a portion of the outstanding principal can be repaid by Journey without penalty after three years. The Notes are secured by a \$22,000 floating charge debenture over all of the Company’s assets and are subordinate to any current or future claims under the banking credit facility (Note 6). 2,310 Warrants were issued under this placement and expire on June 1, 2020. The Warrants are convertible into common shares of Journey on a one for one basis and have an exercise price of \$2.51 per Warrant.

The fair value of the debt component was determined at the date of issuance to be \$20,298 using the effective interest rate method (9.3%). Under this method, the future payments of interest and principal are discounted using a rate of interest that would be reflective of a similar debt instrument, but without the warrant feature. The difference between the principal amount of the Promissory Notes (B) and the discounted value was allocated to the value of the Warrants. The initial value of the debt will accrete up to the principal amount of the Notes throughout the term of the Notes.

Principal amount of Promissory Notes (B)	22,000
Less: value allocated to Warrants	(1,702)
Fair value at date of issue on February 1, 2018	20,298
Accretion expense	47
Unamortized deferred issuance expenses	(53)
Promissory Notes (B), March 31, 2018	20,292

8. 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, 2018 to be \$191,048 (December 31, 2017 - \$190,026) the majority of which, will be incurred at various times between 2018 and 2070. The present value of the decommissioning liabilities for the period ended March 31, 2017 was calculated using a risk free rate of 2.2% (December 31, 2017 – 2.2%) and an inflation factor of 2.0% (December 31, 2017 – 2.0%). As at March 31, 2018, no funds have been set aside to settle these obligations. Changes to decommissioning liabilities during the periods were as follows:

	March 31, 2018	December 31, 2017
Balance, at beginning of period	175,495	149,296
Liabilities acquired	-	14,244
Revaluation of liabilities acquired ⁽¹⁾	-	23,917
Liabilities disposed	(370)	(5,842)
Incurred on development activities	444	1,164
Liabilities settled	(614)	(827)
Revisions to estimates	1,389	(3,220)
Changes in discount rate	300	(6,958)
Accretion	961	3,721
Balance, at end of period	177,605	175,495

⁽¹⁾ Immediately after the acquisition the liability was revalued using a risk-free discount rate. At the date of acquisition the acquired decommissioning liabilities were fair valued using a credit adjusted risk free rate.

9. SHARE CAPITAL

The outstanding shares of the Company at each respective period end are as follows:

COMMON SHARES	Number	\$
Balance, January 1, 2017	43,703	368,428
Issuance on warrant exercise (note 10)	4,950	15,688
Normal course issuer bid	(1,270)	(9,627)
Issued on asset acquisition	2,076	6,000
Issued for services	185	535
Issued on exercise of PSU's and RSU's	576	2,808
Flow-through shares issued	1,020	2,193
Share issue costs, net of tax	-	(8)
Balance, December 31, 2017	51,240	386,017
Issued on exercise of PSU's and RSU's	6	24
Share repurchase (i)	(12,700)	(95,674)
Balance, March 31, 2018	38,546	290,367

i. *Share repurchase*

On February 2, 2018 Journey closed the acquisition of 12,700 common shares from MIE Maple Investments Limited ("MIE") for \$21,336, representing an average price of \$1.68. Concurrently with the closing of the share repurchase, the Toronto Stock Exchange required the Company to terminate its normal course issuer bid that was originally set to expire June 18, 2018.

10. WARRANTS

	Number	\$
Balance, January 1, 2017	4,950	2,076
Exercised	(4,950)	(2,076)
Balance, December 31, 2017	-	-
Issued	2,310	1,702
Balance, March 31, 2018	2,310	1,702

As part of a private placement of promissory notes (Note 7), 2,310 share purchase warrants were issued to the holder of the notes. The warrants are convertible into common shares of Journey on a one for one basis and have an exercise price of \$2.51 per warrant.

11. SHARE BASED COMPENSATION

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

During the period \$548 (2017 – \$342) was charged to share based compensation expense for RSU's and PSU's issued.

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

	RSU's	PSU's
Balance at January 1, 2017	1,308	504
Granted	1,593	305
Exercised	(712)	(65)
Forfeited	(95)	(15)
Balance at December 31, 2017	2,094	729
Exercised	(9)	-
Forfeited	(18)	(9)
Balance at March 31, 2018	2,067	720

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, 2017	2,807	4.58	1,207
Granted	80	2.65	-
Forfeited	(194)	6.44	(123)
Balance at December 31, 2017	2,693	4.39	1,693
Forfeited	(67)	4.34	(42)
Balance at March 31, 2018	2,626	4.39	1,669

For the periods ended March 31, 2018 and 2017 no stock options were granted to employees. During the period ended March 31, 2018, \$112 (March 31, 2017 - \$244) was recorded as share based compensation expense related to the stock options previously issued.

During the period ended March 31, 2018 \$92 (March 31, 2017 - \$86) was capitalized with respect to grants related to technical personnel for RSU's, PSU's and stock options. 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:

	Number	Weighted average Exercise price \$	Weighted average fair value per warrant \$
Series A			
Balance, January 1, 2017	151	6.00	3.78
Forfeited	(1)	6.00	3.78
Balance at December 31, 2017	150	6.00	3.78
Forfeited	(3)	6.00	3.78
Balance at March 31, 2018	147	6.00	3.78

All of the series A performance warrants were exercisable at March 31, 2018 (March 31, 2017 – 150).

	Number	Weighted average Exercise price \$	Weighted average fair value per warrant \$
Series B			
Balance, January 1, 2017	298	7.00	3.46
Forfeited	(2)	7.00	3.46
Balance at December 31, 2017	296	7.00	3.46
Forfeited	(7)	7.00	3.46
Balance at March 31, 2018	289	7.00	3.46

All of the series B performance warrants were exercisable at March 31, 2018 (March 31, 2017 – 296).

	Number	Weighted average Exercise price \$	Weighted average fair value per warrant \$
Series C			
Balance, January 1, 2017	339	11.06	5.25
Forfeited	(147)	10.47	5.40
Balance at December 31, 2017 and March 31, 2018	192	11.48	5.14

64 of the series C performance warrants were exercisable at March 31, 2018 (March 31, 2017 – 87).

For the period ended March 31, 2018 nil (March 31, 2017 - \$(64)) was credited to share based compensation expense for the forfeiture of unvested 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, 2017, December 31, 2017 and March 31, 2018	975	6.98	2.16

All of the share purchase warrants are exercisable at March 31, 2018 and March 31, 2017.

12. FINANCE EXPENSES

	Three months ended March 31,	
	2018	2017
Interest and bank charges	1,913	1,201
Accretion on decommissioning liabilities	961	815
Accretion on promissory notes	166	107
Finance expenses	3,040	2,123

13. DEFERRED INCOME TAXES

The provision for deferred income tax reflects an effective rate which differs from the expected statutory federal and provincial tax rates. Differences between the statutory and effective rates for the periods ended March 31, 2018 and 2017 are accounted for as follows:

	Three months ended March 31,	
	2018	2017
Net (loss) income before taxes	(9,144)	5,580
Expected income taxes, at the statutory rate of 27.0% (2017 – 27.0%)	(2,469)	1,507
Tax effect of non-deductible and non-taxable amounts related to:		
Share based compensation expense	160	123
Accretion on promissory notes	45	29
Non-deductible items	3	1
Deferred tax asset not recognized	2,261	-
Deferred income tax expense (recovery)	-	1,660

14. PER SHARE AMOUNTS

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

	Three months ended March 31,	
	2018	2017
Net (loss) income	(9,144)	3,920
Weighted average shares outstanding - basic	43,199	45,298
Weighted average shares outstanding - diluted	43,199	46,064
Net (loss) income per share – basic	\$ (0.21)	\$ 0.09
Net (loss) income per share – diluted	\$ (0.21)	\$ 0.09

The net (loss) income per basic share is calculated by dividing the net (loss) income by the weighted average number of common shares outstanding during the respective periods. Excluded from the diluted number of shares for the three month period ended March 31, 2018 is the effect of 2,850 stock options, RSU's and PSU's as to include them would be anti-dilutive. 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.

15. FINANCIAL INSTRUMENTS

(a) Designation and valuation of financial instruments

Journey has elected to designate its financial instruments as follows:

<i>Classification and measurement</i>	March 31, 2018		December 31, 2017	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Amortized cost				
Cash	4,740	4,740	8,227	8,227
Accounts receivable	13,319	13,319	16,111	16,111
Accounts payable and accrued liabilities	(28,710)	(28,710)	(28,290)	(28,290)
Promissory notes	(48,815)	(52,000)	(28,398)	(30,000)
Bank debt	(67,000)	(67,000)	(70,000)	(70,000)
Fair value through profit or loss				
Derivative contracts – current asset	1,144	1,144	2,308	2,308
Derivative contracts – non-current asset	14	14	-	-
Derivative contracts – current liability	(9,014)	(9,014)	(4,449)	(4,449)
Derivative contracts – non-current liability	(384)	(384)	(16)	(16)

The fair value of bank debt and promissory notes are based upon level 2 inputs. The fair value of these items approximates the carrying value as they bear interest at a 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 (CDN)	Term	Fair value
Swap	1,500	WTI NYMEX	\$69.50	January 2, 2018 to December 31, 2018	(4,865)
Swap	1,000	WTI NYMEX	\$72.25	April 1, 2018 to September 30, 2018	(1,849)
Swap	1,000	WTI NYMEX	\$71.00	October 1, 2018 to March 31, 2019	(1,324)
Swap	500	WTI NYMEX	\$76.00	April 1, 2018 to June 30, 2018	(334)
Swap	500	WTI NYMEX	\$76.00	July 1, 2018 to September 30, 2018	(249)
Swap	1,000	WTI NYMEX	\$74.50	April 1, 2019 to June 30, 2019	(384)
Swap	500	WTI NYMEX	\$74.00	October 1, 2018 to March 31, 2019	(393)
Collar	500	WTI NYMEX	\$70.00-\$77.00	April 1, 2019 to March 31, 2020	14
Total oil derivative contracts fair value					(9,384)

Natural Gas					
contracts	Volume GJ's/d	Pricing point	Strike price per GJ (CDN)	Term	Fair value
Swap	2,500	AECO 7a	\$2.45	April 1, 2018 to June 30, 2018	295
Swap	2,500	AECO 7a	\$2.45	July 1, 2018 to September 30, 2018	304
Swap	2,500	AECO 7a	\$2.62	October 1, 2018 to December 31, 2018	204
Swap	1,000	AECO 7a	\$2.55	April 1, 2018 to June 30, 2018	127
Swap	1,000	AECO 7a	\$2.54	July 1, 2018 to September 30, 2018	129
Swap	1,000	AECO 7a	\$2.66	October 1, 2018 to December 31, 2018	85
Total gas derivative contracts fair value					1,144
Total derivative contracts fair value					(8,240)

A 10% increase or decrease in the respective commodity prices would have impacted the annual pre-tax net income by the following amounts at March 31, 2018:

Commodity	10% increase	10% decrease
Oil	(8,378)	8,356
Natural gas	(112)	136
Total	(8,490)	8,492

The loss (gain) on derivative contracts for the periods ended March 31, 2018 and 2017 was as follows:

	Three months ended March 31,	
	2018	2017
Realized	2,105	1,178
Unrealized	6,083	(8,737)
	8,188	(7,559)

(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 relates to.

	2018	2017
Cash	4,740	8,227
Accounts receivable	13,319	16,111
Derivative contracts	1,158	2,308
Total	19,217	26,646

For the period ended March 31, 2018, Journey determined that \$525 (2017 - \$239) of receivables from third parties were uncollectable and provided for them in the provision for uncollectable accounts. At March 31, 2018 Journey assessed its provision for uncollectable accounts and increased it to \$606 (2017 - \$285). Accounts receivable balances outstanding greater than ninety days at March 31, 2018 was \$1,216 (2017 - \$1,644).

(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, 2018 would result in a \$670 change to annual pre-tax 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 has completed the annual review of credit facility April 30, 2018. The currently available capacity on the Company's credit facility is 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, 2018:

	< 1year	1 - 2 years	3 - 5 years	Total
Accounts payable and accrued liabilities	28,710	-	-	28,710
Derivative contracts	9,014	384	-	9,398
Bank Debt	67,000	-	-	67,000

Promissory notes	-	-	52,000	52,000
Interest on bank debt	3,430	-		3,430
Interest on promissory notes	3,978	3,987	5,552	13,517
	112,132	4,371	57,552	174,055

16. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital

	Three months ended March 31,	
<i>Sources (uses) of funds</i>	2018	2017
Accounts receivable	2,792	(556)
Prepaid expenses and deposits	(490)	(2,278)
Deferred financing charge	32	(21)
Deferred lease obligation	(15)	(15)
Accounts payable and accrued liabilities	420	366
	2,739	(2,504)
<u>Relating to:</u>		
Operating activities	4,907	(2,507)
Financing activities	32	(21)
Investing activities	(2,200)	24
	2,739	(2,504)

b) Supplementary cash flow information

	Three months ended March 31,	
	2018	2017
Interest paid	1,115	580

c) Revenue

	Three months ended March 31,	
	2018	2017
Crude oil	20,610	19,231
Natural gas	5,492	6,520
Natural gas liquids	2,832	939
Petroleum and natural gas sales	28,934	26,690

17. 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	2018	2019 - 2020	2021 - 2022	Thereafter
Natural gas transportation	1,245	492	647	106	-
Operating leases	11,221	1,454	3,821	3,755	2,191
Total	12,466	1,946	4,468	3,861	2,191

18. CAPITAL MANAGEMENT

Journey's capital structure is comprised of share capital, bank debt, promissory notes and working capital (current assets less current liabilities, but excluding the fair value of derivative contracts and decommissioning liabilities). The Company's key objectives when managing its capital structure are to: 1) to meet its financial obligations as they come due; 2) to finance internally generated growth; and 3) maintain financial flexibility to be able to take advantage of accretive acquisitions that arise. To do this Management strives to optimize its cost of capital while at the same time managing its leverage. To manage its capital structure Journey may: issue equity or term debt, adjust discretionary capital 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 throughout the year as a result of drilling successes or failures, general economic conditions, the state of the petroleum industry and global events, all of which 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-evaluated at each regularly scheduled 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 2.0. While the most recent quarter's funds flow is often used as a benchmark for measuring the net debt to funds flow ratio, Journey factors in anomalies in current funds flow such as unusually low commodity prices and/or non-recurring operating costs. As at March 31, 2018 the net debt is higher than the desired operating level due to the additional term debt of \$22,000 which was used to finance the repurchase of 12,700 common shares. This additional leverage has resulted in the Company altering its planned capital expenditures for 2018 and 2019 to allow the net debt to funds flow ratio to move closer to the desired level.

19. PRIOR YEAR COMPARATIVE NUMBERS

Processing revenue, previously netted with operating expenses in 2017, has been reclassified to the revenue section of the Financial Statements to conform to the current disclosure in 2018.