MANAGEMENT'S DISCUSSION AND ANALYSIS

April 23, 2020 – The following Management's Discussion and Analysis of financial results ("MD&A") as provided by the management of Bellatrix Exploration Ltd. ("Bellatrix" or the "Company") should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 2019 and 2018 (the "Financial Statements") that is filed on SEDAR at www.sedar.com and on the Company's website at www.bxe.com. This commentary is based on information available to, and is dated as of, April 23, 2020. The financial data presented is in Canadian dollars, except where indicated otherwise.

Overview and Description of the Business

Bellatrix Exploration Ltd. ("Bellatrix" or the "Company") is a Western Canadian based oil and gas company engaged in the exploration for, and the acquisition, development and production of oil and natural gas reserves, with highly concentrated operations in west central Alberta, principally focused on development of the Spirit River liquids rich natural gas play.

FOURTH QUARTER AND ANNUAL 2019 HIGHLIGHTS

		Three months ended December 31,		Year ended December 31,	
		2019	**2018**	**2019**	**2018**
SELECTED FINANCIAL RESULTS					
(CDN$000s except share and per share					
Cash flow from operating activities		(1,379)	28,239	24,120	62,475
Per basic and diluted share [1]		($0.03)	$4.68	$0.91	$12.60
Adjusted funds flow [2]		(3,447)	15,508	25,652	48,025
Per basic and diluted share [1]		($0.08)	$2.52	$0.97	$9.60
Net profit (loss)		(16,480)	(89,788)	(704,874)	(146,339)
Per basic and diluted share [1]		($0.40)	($14.88)	($26.63)	($29.40)
Capital – exploration and development		306	13,654	27,576	50,329
Total capital expenditures – net [2]		(6,558)	44,187	27,091	75,604
Total assets		618,300	1,235,743	618,300	1,235,743
Total revenue		49,179	56,949	195,132	228,712
Average daily sales volumes					
Crude oil, condensate and NGLs	(bbl/d)	5,665	10,281	8,839	9,876
Natural gas	(mcf/d)	129,135	148,319	147,007	154,553
Total oil equivalent	(boe/d)	27,188	35,001	33,341	35,635
Selected Key Operating Statistics					
Operating netback [2]	($/boe)	7.93	7.25	6.01	6.16
Production expenses	($/boe)	(5.96)	(6.59)	(6.12)	(7.50)
Transportation	($/boe)	(3.20)	(2.15)	(2.53)	(2.10)
General & administrative	($/boe)	(1.36)	(2.46)	(1.45)	(2.18)
Royalties	($/boe)	(2.57)	(1.68)	(1.37)	(1.83)
COMMON SHARES					
Common shares outstanding [3]		40,862,867	6,742,244	40,862,867	6,742,244
Weighted average shares [1]		40,862,867	6,036,342	26,466,785	4,977,906

(1) On June 4, 2019, Bellatrix completed a 12 for 1 common share consolidation (the "Consolidation"), which has been reflected in the calculation of cash flow from operating activities per share, funds flow from operations per share and net profit (loss) per share for the three months and year ended December 31, 2019 and 2018.

Basic weighted average shares for the three months and year ended December 31, 2019 were 40,862,867 (2018: 6,036,342) and 26,466,785 (2018: 4,977,906), respectively. In computing weighted average diluted loss per share, weighted average diluted cash flow from operating activities per share and weighted average diluted adjusted funds flow per share for the three months and year ended December 31, 2019, a total of nil (2018: nil) and nil (2018: nil) common shares were added to the denominator as a consequence of applying the treasury stock method to the Company's outstanding share options and a total of nil (2018: nil) and nil (2018: nil) common shares issuable on conversion of the Convertible Debentures (defined below) were added to the denominator for the three months and year resulting in diluted weighted average common shares of 40,862,867 (2018: 6,036,342) and 26,466,785 (2018: 4,977,906), respectively.

(2) Refer to "Non-GAAP measures" in respect of the terms "adjusted funds flow", "operating netbacks" and "total capital expenditures - net".

(3) After giving effect to the Consolidation, fully diluted common shares outstanding for the three months and year ended December 31, 2019 were 43,727,839 (2018: 7,593,375). This includes 821,810 (2018: 79,378) of share options outstanding, nil (2018: 514,403) of shares issuable on conversion of the Convertible Debentures and 2,043,162 (2018: 257,350) of warrants outstanding. Shares issuable on conversion of the Convertible Debentures are calculated by dividing the $50 million principal amount of the Convertible Debentures by the conversion price of $97.20 per share.

Future Operations

For a significant period of time, the Company has been reviewing and evaluating potential options and alternatives to improve the Company's liquidity and capital structure. In connection with the need to address the Company's liquidity constraints and advance a strategic process to address the Company's challenging financial position, on October 2, 2019, the Company obtained an initial order (the "Initial Order") from the Court of Queen's Bench of Alberta (the "Court") commencing proceedings under the *Companies' Creditors Arrangement Act* ("CCAA"). PricewaterhouseCoopers Inc. was appointed as monitor (the "Monitor") in the CCAA proceedings.

Pursuant to the Initial Order, among other things, a stay of proceedings was granted in respect of the Company and since the Initial Order, the stay of proceedings has been subsequently extended by the Court until, most recently, May 7, 2020. Copies of the Court orders may be accessed through the Monitor's website (www.pwc.com/ca/bellatrix). Bellatrix intends to continue to pay its employees for services rendered during the CCAA proceedings and intends to pay its suppliers for goods and services provided to the Company following the commencement of the CCAA proceedings.

Concurrent with the Initial Order, Bellatrix initiated a sale and investment solicitation process (the "Strategic Process") to identify and pursue potential strategic options and alternatives with respect to Bellatrix to maximize value for the benefit of the Company's stakeholders. The Strategic Process continues to explore a broad range of strategic options and alternatives that may be available to the Company, including, but not limited to, transactions involving the sale of all or a portion of the business and assets or shares of the Company, or refinancing, recapitalization or other restructuring transactions.

In connection with the commencement of the Strategic Process and the CCAA proceedings, Bellatrix obtained US$15 million of interim financing (the "Interim Financing") from certain holders of its Second Lien Notes (as defined below) and the Interim Financing was approved by the Court pursuant to the Initial Order. The Interim Financing provides the Company with additional funding to support its ongoing operations while Bellatrix pursues the Strategic Process (refer to *Liquidity Risk and Capital Management* below).

Under the terms of the Initial Order and the stay of proceedings, any actions against Bellatrix to enforce or otherwise effect payment from Bellatrix of obligations was stayed during the CCAA proceedings. As at December 31, 2019, in connection with the CCAA proceedings, the Company identified the following obligations that are subject to potential compromise:

($000s)		**Amount**
Second Lien Notes	$	197,070
Interest payable on Second Lien Notes		8,448
Third Lien Notes		71,090
Interest payable on Third Lien Notes		5,597
Accounts payable and accrued liabilities		20,600
Total liabilities subject to potential compromise	**$**	**302,805**

The above amounts represent their amortized cost as at December 31, 2019 and have not been adjusted to fair value. As indicated above, the above obligations that are subject to potential compromise are based on management of the Company's best estimate as to the potential outcomes of the Strategic Process; however, the extent of potential compromise, if any, is not determinable and is subject to future events including completion of the Strategic Process. The amounts may be subject to material adjustments. To the extent that the result of the Strategic Process is more favourable to the Company and its stakeholders than currently anticipated, some of the above obligations may not be subject to the full compromise as anticipated above. To the extent that the result of the Strategic Process is less favourable to the Company and its stakeholders than currently anticipated, additional obligations may be subject to the potential compromise than those which are anticipated above.

The Company continues to move forward with the CCAA proceedings and evaluate sale and restructuring options pursuant to the Strategic Process. On April 23, 2020, the Company entered into an asset purchase agreement with Return Energy Inc., through its wholly-owned subsidiary, Winslow Resources Inc. (the "Purchaser") whereby the Purchaser will acquire substantially all of the assets of Bellatrix for cash consideration of approximately $87.4 million plus the assumption of certain liabilities at closing (the “Transaction”). The Transaction remains subject to the approval of the Court in the Company’s CCAA Proceedings, certain other regulatory and third party approvals and applicable conditions. It is expected that the Transaction will be completed prior to the end of June 2020.

The proceeds of the Transaction will repay the Interim Financing in full and are expected to be sufficient to repay a substantial portion of the obligations under the Company’s Credit Facilities (as defined below), subject to a number of factors which could affect the overall recovery and distributions resulting from the Transaction. It is not anticipated that there will be sufficient proceeds for distributions to other secured or unsecured creditors of the Company.

Future operations are dependent on the Company being able to restructure its balance sheet to provide the opportunity to generate positive cash flow from operations, maintain existing operations and have the ability to discharge obligations as they become due. Also, future operations are dependent on the Company’s ability to comply with the covenants contained in the Interim Financing Agreement (as defined below), the Company’s ability to successfully complete the Strategic Process and to obtain Court and required stakeholder approval of any transaction or plan of compromise arising therefrom. Additionally, the rapidly evolving events in early 2020 related to the novel coronavirus ("COVID-19") pandemic and severe decline in worldwide oil prices, may impact the timing or ability of the Company to complete the Strategic Process. At this point, the extent to which COVID-19 may impact the Company and the Strategic Process is uncertain; however, it is possible that COVID-19 may have an adverse effect on the Company’s business, results of operations and financial condition (refer to *Business Risks and Uncertainties* below). The Company’s financial liquidity condition and the risks and material uncertainties associated with the implementation of the Strategic Process cause significant doubt about the Company’s ability to meet its obligations and the Company's ability to continue as a going concern.

The Financial Statements have been prepared on a basis which assumes that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner giving consideration to expected possible outcomes. Accordingly, no adjustments have been made to the Financial Statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that may be necessary should the Company not continue as a going concern. These adjustments could be material.

2019 Fourth Quarter and Annual 2019 Financial and Operational Results

SALES VOLUMES

Sales volumes averaged 27,188 boe/d for the three months ended December 31, 2019, a decrease of 22% compared to 35,001 boe/d in the fourth quarter of 2018. Sales volumes for the year ended December 31, 2019 decreased by 6% to 33,341 boe/d compared to 35,635 boe/d in 2018. The total change in sales volumes between the three months and year ended December 31, 2019 and December 31, 2018 was impacted by natural production declines due to curtailed capital activity during 2019. Also in the fourth quarter of 2019, in connection with the CCAA proceedings, the Company disclaimed certain firm processing and transportation agreements with surplus capacity resulting in a decrease in NGL volumes. The decrease in the NGL volumes was the result of the Company temporarily adjusting the Bellatrix O’Chiese Nees-Ohpawganu’ck deep-cut gas plant at Alder Flats (the “Alder Flats Plant”) to shallow-cut processing that yielded fewer NGLs in November and December 2019. The Company shifted the operations of the Alder Flats Plant to a shallow-cut to meet requirements under the new temporary transportation and processing arrangements. The overall impact of the new transportation and processing agreements was positive to operating netbacks and cash flow. The decreases in volumes was partially offset by production volumes added by a joint venture partner property acquisition completed in the fourth quarter of 2019.

The Alder Flats Plant provides enhanced NGL yields of approximately 10 to 35 bbl/MMcf over third-party plants in the Company's core area. However, the Company's average corporate liquids weighting remained flat at 27% in 2019, compared to 28% in 2018. The completion of Phase 2 of the Alder Flats Plant in March 2018, was offset by operating the Alder Flats Plant temporarily as a shallow-cut in November and December of 2019.

			Three months ended December 31,			Year ended December 31,		
Sales Volumes			**2019**		**2018**		**2019**		**2018**
Crude oil and condensate	(bbl/d)	$	1,542	$	1,861	$	1,686	$	1,926
NGLs (excluding condensate)	(bbl/d)		4,123		8,420		7,153		7,950
Total crude oil, condensate and NGLs	(bbl/d)	$	5,665	$	10,281	$	8,839	$	9,876
Natural gas	(mcf/d)		129,135		148,319		147,007		154,553
Total sales volumes (6:1 conversion)	**(boe/d)**	**$**	**27,188**	**$**	**35,001**	**$**	**33,341**	**$**	**35,635**

COMMODITY PRICES

	Three months ended December 31,			Year ended December 31,		
Average Commodity Prices	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Crude oil:						
WTI *(US$/bbl)*	56.96	58.51	(3)	57.02	64.77	(12)
Canadian Light crude blend *($/bbl)*	66.77	48.27	38	68.87	68.49	1
Bellatrix's average realized prices *($/bbl)*						
Crude oil and condensate	70.32	50.98	38	69.86	73.63	(5)
NGLs (excluding condensate)	22.87	20.89	9	15.17	24.46	(38)
Total crude oil, condensate and NGLs	35.78	26.34	36	25.60	34.05	(25)
Crude oil, condensate and NGLs (including risk management [1])	33.52	24.85	35	25.09	31.81	(21)
Natural gas:						
NYMEX *(US$/mmbtu)*	2.51	3.03	(17)	2.63	2.93	(10)
AECO daily index *($/mcf)*	2.49	1.56	60	1.76	1.50	17
AECO monthly index *($/mcf)*	2.33	1.90	23	1.62	1.53	6
Bellatrix's average realized prices *($/mcf)*						
Natural gas	2.46	2.24	10	1.95	1.78	10
Natural gas (including risk management)	2.01	2.96	(32)	1.98	2.46	(20)
Exchange rate *(CDN$/US$1.00)*	1.3198	1.3221	—	1.3267	1.2957	2

(1) Per unit metrics including risk management include realized gains or losses on commodity contracts and exclude unrealized gains or losses on commodity contracts.

The Alberta natural gas market, priced at the AECO/NIT market point, saw significant gains in the fourth quarter of 2019 compared to a year earlier. The implementation of the TC Energy Temporary Service Protocol for the month of October 2019 allowed additional gas volumes to be injected into storage in Alberta. November 2019 brought an early cold snap that helped prices increase through the end of 2019. Natural gas prices in Alberta also gained on a year over year basis due to changes with the TC Energy Temporary Service Protocol and due to an early start to the heating season that ramped up demand in the fourth quarter of 2019. Bellatrix's average 2019 realized prices were also aided by having a portion of its natural gas sales at US market prices. During the fourth quarter of 2019, the AECO daily reference price increased by 60% and the AECO monthly reference price increased by 23% compared to the fourth quarter of 2018. Bellatrix's natural gas average realized sales price before commodity price risk management contracts for the fourth quarter of 2019 increased by 10% to $2.46/mcf compared to $2.24/mcf in the same period in 2018. Bellatrix's natural gas average realized price, including commodity price risk management contracts for the three months ended December 31, 2019, averaged $2.01/mcf compared to $2.96/mcf in the comparative 2018 period.

Bellatrix's oil production is primarily condensate and light, sweet crude oil which historically are priced closely to the WTI benchmark at the Edmonton market. Canadian light oil benchmark pricing in the fourth quarter of 2019 was positively impacted by the provincially mandated production cuts instituted in Alberta in late 2018. The differential to WTI at the Edmonton market averaged -US$5.37/bbl in the fourth quarter of 2019, a US$20.93/bbl improvement relative to the comparable quarter of 2018. Bellatrix's condensate production experienced wider WTI differentials for Edmonton deliveries that averaged -US$3.95/bbl in the fourth quarter as a result of lower demand for diluent from the reduction in oil sands activity due to the provincial curtailments. These differential moves were accompanied by a weaker WTI price relative to the same period in 2018. While WTI prices decreased in 2019 versus 2018, Canadian net oil prices remained almost flat year over year, primarily due to tighter differentials for oil and condensate sales relative to 2018. In the fourth quarter of 2019, Bellatrix realized an average price of $70.32/bbl before commodity price risk management contracts for crude oil and condensate, an increase of 38% from the average price of $50.98/bbl received in the comparable quarter of 2018. The Canadian Light crude blend price increased by 38% and the average WTI crude oil benchmark price decreased by 3% between the fourth quarters of 2019 and 2018.

Bellatrix's average realized price for NGLs (excluding condensate) increased by 9% to $22.87/bbl during the fourth quarter of 2019, compared to $20.89/bbl received in the comparable 2018 period. Canadian butane prices strengthened significantly during the fourth quarter of 2019 due to low inventory levels. Propane prices were also tighter to US prices during the quarter as a result of a cold start to the winter heating season.

REVENUE

Total revenue of $49.2 million for the three months ended December 31, 2019 decreased by 14% compared to $56.9 million realized in the fourth quarter of 2018. The lower total revenue realized in the fourth quarter of 2019 compared to 2018 was primarily attributable to a 22% decrease in sales volumes in the period, partially offset by an increase of 11% in realized average combined commodity prices.

Bellatrix's total revenue was $195.1 million for the year ended December 31, 2019, a decrease of 15% compared to $228.7 million realized in the year ended December 31, 2018. The decrease in total revenue in the year ended December 31, 2019 compared to 2018 was a result of a 10% decrease in realized average combined commodity prices as well as a decrease of 6% in sales volumes.

	Three months ended December 31,		Year ended December 31,	
Revenue *($000s)*	**2019**	**2018**	**2019**	**2018**
Crude oil and condensate	$ 9,976	$ 8,729	$ 42,992	$ 51,761
NGLs (excluding condensate)	8,674	16,183	39,609	70,970
Crude oil, condensate and NGLs	$ 18,650	$ 24,912	$ 82,601	$ 122,731
Natural gas	29,278	30,514	104,827	100,405
Petroleum and natural gas sales	$ 47,928	$ 55,426	$ 187,428	$ 223,136
Other income [1]	1,251	1,523	7,704	5,576
Total revenue	**$ 49,179**	**$ 56,949**	**$ 195,132**	**$ 228,712**

(1) Other income primarily consists of processing and other third party income.

COMMODITY PRICE RISK MANAGEMENT

As result of the CCAA proceedings and in accordance with counterparty agreements, certain risk management contracts were terminated with early settlements effective on or about October 2, 2019 and the Company realized a loss of $4.1 million in the fourth quarter of 2019. Any efforts to enforce payment obligations for associated claims are stayed under the CCAA proceedings.

The Company no longer holds physical delivery contracts for natural gas to alternate markets for its expected sale or usage requirements and as a result these physical delivery contracts in place as at December 31, 2019 were marked to market as at December 31, 2019.

When the Company has outstanding commodity price risk management contracts at a reporting date, the fair value, or mark-to-market value, of these contracts is reflected in its financial statements as an unrealized asset or liability. Fair value is based on the estimated amount that would have been received or paid, after any adjustments for credit risk, to settle the contracts as at the reporting date and would differ from what would eventually be realized. Changes in the fair value of the commodity contracts are recognized in the Company's Statements of Profit (Loss) and Comprehensive Income (Loss).

During the three months and year ended December 31, 2019, the Company monetized certain natural gas basis differential arrangements for proceeds of nil and $3.1 million, respectively.

The following are summaries of the gain (loss) on commodity price risk management contracts for the three months ended December 31, 2019 and 2018:

	Three months ended December 31, 2019			
Commodity contracts *($000s)*	**Crude Oil**	**Natural Gas**	**NGLs**	**Total**
Realized cash gain (loss) on contracts	$ (1,178)	$ (5,316)	$ —	$ (6,494)
Unrealized gain (loss) on contracts [1]	1,228	(8,643)	—	(7,415)
Total gain (loss) on commodity contracts	**$ 50**	**$ (13,959)**	**$ —**	**$ (13,909)**

(1) Unrealized gain (loss) on commodity contracts represents non-cash adjustments for changes in the fair value of these contracts during the period.

	Three months ended December 31, 2018			
Commodity contracts *($000s)*	**Crude Oil**	**Natural Gas**	**NGLs**	**Total**
Realized cash gain (loss) on contracts	$ (1,241)	$ 9,938	$ (164)	$ 8,533
Unrealized gain (loss) on contracts [1]	11,835	3,233	233	15,301
Total gain (loss) on commodity contracts	**$ 10,594**	**$ 13,171**	**$ 69**	**$ 23,834**

(1) Unrealized gain (loss) on commodity contracts represents non-cash adjustments for changes in the fair value of these contracts during the period.

The following are summaries of the gain (loss) on commodity price risk management contracts for years ended December 31, 2019 and 2018:

	Year ended December 31, 2019			
Commodity contracts *($000s)*	**Crude Oil**	**Natural Gas**	**NGLs**	**Total**
Realized cash gain (loss) on contracts	$ (1,636)	$ 1,756	$ 1	$ 121
Unrealized gain (loss) on contracts [1]	2,569	(24,915)	—	(22,346)
Total gain (loss) on commodity contracts	**$ 933**	**$ (23,159)**	**$ 1**	**$ (22,225)**

(1) Unrealized gain (loss) on commodity contracts represents non-cash adjustments for changes in the fair value of these contracts during the period.

	Year ended December 31, 2018			
Commodity contracts *($000s)*	**Crude Oil**	**Natural Gas**	**NGLs**	**Total**
Realized cash gain (loss) on contracts	$ (8,126)	$ 38,587	$ 75	$ 30,536
Unrealized gain (loss) on contracts [1]	(1,019)	(19,980)	2,917	(18,082)
Total gain (loss) on commodity contracts	**$ (9,145)**	**$ 18,607**	**$ 2,992**	**$ 12,454**

(1) Unrealized gain (loss) on commodity contracts represents non-cash adjustments for changes in the fair value of these contracts during the period.

ROYALTIES

Bellatrix pays royalties to the respective provincial governments and landowners where it operates. Each province that Bellatrix operates in has established a separate and distinct royalty regime which impacts Bellatrix's average corporate royalty rate. The Company's royalties are primarily paid in the province of Alberta.

For the three months ended December 31, 2019, the Company incurred $6.4 million ($2.57/boe) in royalties, an increase from $5.4 million ($1.68/boe) in the fourth quarter of 2018. As a percentage of petroleum and natural gas sales revenue (after transportation costs), royalties were 16% in the three months ended December 31, 2019, compared to 11% in the same period of 2018. For the year ended December 31, 2019, Bellatrix incurred total royalties of $16.7 million ($1.37/boe) compared to $23.8 million ($1.83/boe) incurred in 2018. Overall royalties as a percentage of petroleum and natural gas sales revenue (after transportation costs) in 2019 were 11%, compared with 12% in 2018. Average corporate royalty rates in the year ended 2019 compared to 2018 are consistent as the decrease of 25% in realized crude oil, condensate and NGL prices was offset by decreased gas cost allowance ("GCA") related to infrastructure and facilities and increased realized natural gas prices.

Royalties by Commodity Type	**Three months ended December 31,**		**Year ended December 31,**	
($000s, except where noted)	**2019**	**2018**	**2019**	**2018**
Crude oil, condensate and NGLs	$ 4,851	$ 6,104	$ 20,247	$ 30,228
$/bbl	9.31	6.45	6.28	8.39
Natural Gas	1,574	(703)	(3,597)	(6,439)
$/mcf	0.13	(0.05)	(0.07)	(0.11)
Total	**$ 6,425**	**$ 5,401**	**$ 16,650**	**$ 23,789**
Total $/boe	**$ 2.57**	**$ 1.68**	**$ 1.37**	**$ 1.83**

PRODUCTION EXPENSES

Production expenses for the three months and year ended December 31, 2019 totaled $14.9 million ($5.96/boe) and $74.5 million ($6.12/boe) compared to $21.2 million ($6.59/boe) and $97.5 million ($7.50/boe) in the comparative 2018 periods, respectively. Production expenses decreased on a per boe basis between the three months ended December 31, 2019 and the comparative period in 2018 as a result of $4.3 million of lease payments which had previously been recognized as production expense now being classified as repayments of lease obligations and financing charges following the Company's adoption of IFRS 16 Leases ("IFRS 16") in 2019. Refer to the section entitled *Critical Accounting Estimates and Accounting Policies* in this MD&A. Also in the fourth quarter of 2019, in connection with the CCAA proceedings, the Company disclaimed certain processing agreements determined to be surplus based on the current level of operations, which decreased production expenses.

Production expenses decreased for the year ended December 31, 2019 compared to the same period of 2018, as a result of $19.5 million of lease payments which have previously been recognized as production expense now being classified as repayments of lease obligations and financing charges following the Company's adoption of IFRS 16 Leases in 2019, as discussed above. Also in the fourth quarter of 2019, in connection with the CCAA proceedings, the Company disclaimed certain processing agreements determined to be surplus based on the current level of operations, which decreased production expenses.

Production Expenses by Commodity Type	**Three months ended December 31,**		**Year ended December 31,**	
($000s, except where noted)	**2019**	**2018**	**2019**	**2018**
Crude oil, condensate and NGLs	$ 3,108	$ 6,322	$ 19,787	$ 27,329
$/bbl	5.96	6.68	6.13	7.58
Natural gas	11,806	14,888	54,668	70,197
$/mcf	0.99	1.09	1.02	1.24
Total production expenses	**$ 14,914**	**$ 21,210**	**$ 74,455**	**$ 97,526**
Total $/boe	**$ 5.96**	**$ 6.59**	**$ 6.12**	**$ 7.50**

TRANSPORTATION

Transportation expenses for the three months and year ended December 31, 2019 were $8.0 million ($3.20/boe) and $30.8 million ($2.53/boe) compared to $6.9 million ($2.15/boe) and $27.3 million ($2.10/boe) in the same periods in 2018, respectively. The increase in transportation costs per boe for the three months ended December 31, 2019 compared to 2018 was primarily due to an increase in trucked volumes in the fourth quarter, as certain firm processing and transportation agreements with surplus capacity were disclaimed in the period resulting in the Company shifting operations to accommodate new processing and transportation agreements.

OPERATING NETBACK

	Three months ended December 31,		**Year ended December 31,**	
Operating Netback – Corporate *($/boe)*	**2019**	**2018**	**2019**	**2018**
Total Revenue	$ 19.66	$ 17.67	$ 16.03	$ 17.59
Production	(5.96)	(6.59)	(6.12)	(7.50)
Transportation	(3.20)	(2.15)	(2.53)	(2.10)
Royalties	(2.57)	(1.68)	(1.37)	(1.83)
Operating netback [1]	$ 7.93	$ 7.25	$ 6.01	$ 6.16
Risk management gain (loss) [2]	(2.60)	2.65	0.01	2.35
Operating netback after risk management	**$ 5.33**	**$ 9.90**	**$ 6.02**	**$ 8.51**

(1) Refer to "Non-GAAP measures" for the term "operating netbacks".
(2) Risk management includes realized gains or losses on commodity contracts and excludes unrealized gains or losses on commodity contracts.

During the three months ended December 31, 2019, the Company's corporate operating netback, before commodity risk management contracts, increased by 9% to $7.93/boe compared to $7.25/boe in the fourth quarter of 2018. The increased operating netback realized in the fourth quarter of 2019 was primarily the result of lower production expense and an 11% increase in average realized combined commodity prices, offset by increased transportation and royalty expenses. After including commodity risk management contracts, the corporate operating netback for the three months ended December 31, 2019 was $5.33/boe compared to $9.90/boe in the fourth quarter of 2018.

For the year ended December 31, 2019, the corporate operating netback before commodity risk management contracts was $6.01/boe, a decrease of 2% compared to $6.16/boe in 2018. The decreased operating netback realized in 2019 was primarily the result of a 10% decrease in average realized combined commodity prices and increased transportation and royalty expenses, partially offset by decreased production and royalty expenses. After including commodity risk management contracts, the corporate operating netback for the year ended December 31, 2019 was $6.02/boe compared to $8.51/boe in 2018.

Operating Netback – Crude Oil, Condensate and NGLs *($/bbl)*	**Three months ended December 31,**		**Year ended December 31,**	
	2019	**2018**	**2019**	**2018**
Sales	$ 35.78	$ 26.34	$ 25.60	$ 34.05
Production	(5.96)	(6.68)	(6.13)	(7.58)
Transportation	(10.47)	(4.85)	(5.93)	(4.55)
Royalties	(9.31)	(6.45)	(6.28)	(8.39)
Operating netback [1]	$ 10.04	$ 8.36	$ 7.26	$ 13.53
Risk management gain (loss) [2]	(2.26)	(1.48)	(0.51)	(2.23)
Operating netback after risk management	**$ 7.78**	**$ 6.88**	**$ 6.75**	**$ 11.30**

(1) Refer to "Non-GAAP measures" for the term "operating netbacks".
(2) Risk management includes realized gains or losses on commodity contracts and excludes unrealized gains or losses on commodity contracts.

Operating Netback – Natural Gas *($/mcf)*	Three months ended December 31, 2019	2018	Year ended December 31, 2019	2018
Sales	$ 2.46	$ 2.24	$ 1.95	$ 1.78
Production	(0.99)	(1.09)	(1.02)	(1.24)
Transportation	(0.21)	(0.17)	(0.22)	(0.19)
Royalties	(0.13)	0.05	0.07	0.11
Operating netback [1]	$ 1.13	$ 1.03	$ 0.78	$ 0.46
Risk management gain (loss) [2]	(0.45)	0.73	0.03	0.68
Operating netback after risk management	**$ 0.68**	**$ 1.76**	**$ 0.81**	**$ 1.14**

(1) Refer to "Non-GAAP measures" for the term "operating netbacks".
(2) Risk management includes realized gains or losses on commodity contracts and excludes unrealized gains or losses on commodity contracts.

GENERAL AND ADMINISTRATIVE

Bellatrix incurred lower gross general and administrative (“G&A”) expenses (before capitalized G&A and recoveries) in the fourth quarter of 2019 and the year ended December 31, 2019 when compared to the same periods of 2018 by 57% and 33%, respectively. Net G&A expenses (after capitalized costs and recoveries) for the three months and year ended December 31, 2019 were $3.4 million ($1.36/boe) and $17.7 million ($1.45/boe) compared to $7.9 million ($2.46/boe) and $28.4 million ($2.18/boe) in the comparative 2018 periods, a decrease of 57% and 38%, respectively. The overall decrease to net G&A for the year ended December 31, 2019 compared to the same period in 2018 was a result of workforce reductions, reductions in the annual bonus, reduction in administrative and filing costs as a result of delisting from the New York Stock Exchange ("NYSE") (refer to *Liquidity Risk and Capital Management*), reclassification of restructuring costs (discussed below) and $0.4 million and $2.2 million, respectively, of office lease payments which had previously been recognized in G&A and which are now classified as repayments of lease obligations and financing charges following the Company's adoption of IFRS 16 (refer to *Critical Accounting Estimates and Accounting Policies*). G&A expenses for the year ended December 31, 2019 include the reclassification of $1.3 million of previously accrued G&A expenses to transaction costs, which were related to the Recapitalization Transaction (as defined below) that closed June 4, 2019.

On March 25, 2020, the Company implemented certain cost saving initiatives that resulted in the termination of 25 people or approximately 30% of the Company’s head office staff, including the President & CEO. The Company expects that the staff reductions will reduce gross cash G&A expenses by approximately $4.3 million over the balance of 2020. Effective March 25, 2020, Tom MacInnis was appointed as Interim Chief Executive Officer of the Company. Mr. MacInnis previously served as a Director of the Company since 2017.

General and Administrative Expenses *($000s, except where noted)*	Three months ended December 31, 2019	2018	Year ended December 31, 2019	2018
Gross expenses	$ 4,456	$ 10,308	$ 26,609	$ 39,439
Capitalized	(276)	(1,625)	(4,870)	(7,036)
Recoveries	(767)	(755)	(4,060)	(4,014)
G&A expenses	**$ 3,413**	**$ 7,928**	**$ 17,679**	**$ 28,389**
G&A expenses, per unit ($/boe)	**$ 1.36**	**$ 2.46**	**$ 1.45**	**$ 2.18**

TRANSACTION COSTS

A total of nil and $16.9 million of transaction costs related to the Recapitalization Transaction were included in the net gain on the closing of the Recapitalization Transaction for the three months and year ended December 31, 2019, respectively.

RESTRUCTURING COSTS

A total of $3.2 million of restructuring costs related to the CCAA proceedings and Strategic Process were incurred in the three months and year ended December 31, 2019.

FINANCE INCOME AND EXPENSES

	Three months ended December 31,		Year ended December 31,	
($000s, except where noted)	**2019**	**2018**	**2019**	**2018**
Interest on Interim Financing	$ 1,232	$ —	$ 1,232	$ —
Interest on Credit Facilities	1,083	1,101	4,747	4,302
Interest on Second Lien Notes	6,097	2,657	16,845	3,224
Interest on Third Lien Notes	2,750	—	5,705	—
Interest on Senior Notes	—	4,635	7,917	26,219
Interest on Convertible Debentures	—	1,463	2,449	5,681
Interest on lease obligations	2,224	—	6,878	—
Accretion on decommissioning liabilities	298	304	1129	1328
Finance Expense	**$ 13,684**	**$ 10,160**	**$ 46,902**	**$ 40,754**
Finance Expense ($/boe)	**$ 5.47**	**$ 3.16**	**$ 3.85**	**$ 3.13**

For the three months and year ended December 31, 2019, Bellatrix recorded $13.7 million ($5.47/boe) and $46.9 million ($3.85/boe), respectively, of interest and financing charges, compared to $10.2 million ($3.16/boe) and $40.8 million ($3.13/boe), respectively, during the same periods in 2018. Interest and financing charges in the three months and year ended December 31, 2019, included interest on the lease obligations of $2.2 million and $6.9 million, respectively, being recognized in interest and financing as a result of the Company's adoption of IFRS 16 (refer to section *Critical Accounting Estimates and Accounting Policies*).

In connection with the CCAA proceedings, the Company identified the accrued interest on the Second Lien Notes and Third Lien Notes (as defined below) obligations as at December 31, 2019 to be subject to potential compromise (refer to section *Future Operations*).

SHARE-BASED COMPENSATION

Bellatrix has an Award Incentive Plan (the “Award Plan”) where the Company may grant restricted awards (“RAs”) and performance awards (“PAs”) to officers, employees and other service providers. Awards under the Award Plan may be settled in cash, in common shares of the Company, or a combination thereof. In the case of PAs, settlement is subject to a “payout multiplier” (the payout multiplier shall be based on such corporate performance measures as determined by the Board of Directors (or the Compensation Committee) of the Company) and may range between zero and two times. Under Bellatrix’s Deferred Share Unit Plan, the Company may grant deferred share units ("DSUs") to non-employee directors. The DSUs are settled in cash based on the underlying value of the common shares after the non-employee director holding such DSUs ceases to be a director of the Company.

Effective June 4, 2019, the Company consolidated its common shares on the basis of 1 new common share for every 12 old common shares outstanding. The number of outstanding share options, DSUs, RAs and PAs have also been adjusted proportionately. The corresponding exercise prices have increased by the same ratio.

The following table summarizes the DSUs, RAs and PAs movement for the year ended December 31, 2019:

	Share Options	**DSUs**	**RAs**	**PAs**
Balance, December 31, 2018	79,365	68,473	98,567	63,564
Granted	840,000	421,878	2,616,200	4,931,000
Exercised	(95,394)	(53,564)	(34,469)	(7,145)
Forfeited	(2,161)	—	(43,577)	(214,384)
Balance, December 31, 2019	**821,810**	**436,787**	**2,636,721**	**4,773,035**

The following table provides a summary of the Company’s share-based compensation plans for the three months and years ended December 31, 2019 and December 31, 2018.

	Three months ended December 31,		Year ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Share options expense	$ 27	$ 41	$ 94	$ 334
DSUs expense (recovery)	(179)	(510)	(474)	(669)
RAs expense (recovery)	(71)	(91)	(207)	(80)
PAs expense (recovery)	(63)	(111)	(136)	(88)
Share-based compensation expense (recovery)	**$ (286)**	**$ (671)**	**$ (723)**	**$ (503)**

Lower share-based compensation expense in the year ended December 31, 2019 compared to the year ended December 31, 2018 is a result of a decrease in the Company's share price and the Company's shares being delisted from the Toronto Stock Exchange ("TSX") on November 8, 2019 due to failure to meet the TSX's continued listing requirements.

DEPLETION, DEPRECIATION AND IMPAIRMENT

Depletion and Depreciation

Depletion and depreciation expense for the three months and year ended December 31, 2019, was $11.7 million ($4.69/boe) and $98.4 million ($8.08/boe) compared to $23.9 million ($7.41/boe) and $105.3 million ($8.09/boe), recognized in the comparative 2018 periods, respectively. The decrease in the Company's depletion and depreciation expense, on a per boe basis between the periods, can be attributed to the $630 million impairment loss recorded in the third quarter of 2019, partially offset by an increase in depreciation expense of $1.6 million and $15.3 million, respectively, related to the depreciation of the right-of-use asset recognized on the adoption of IFRS 16 (see *Critical Accounting Estimates and Accounting Policies*).

For the year ended December 31, 2019 Bellatrix has included a total of $1,001.3 million (2018: $863.0 million) for future development costs in the depletion calculation and excluded from the depletion calculation a total of $39.3 million (2018: $41.4 million) for estimated salvage in the depletion and depreciation calculations.

Depletion and Depreciation	**Three months ended December 31,**		**Year ended December 31,**	
($000s, except where noted)	**2019**	**2018**	**2019**	**2018**
Depletion and Depreciation	**$ 11,736**	**$ 23,869**	**$ 98,354**	**$ 105,286**
Depletion and Depreciation per unit ($/boe)	**$ 4.69**	**$ 7.41**	**$ 8.08**	**$ 8.09**

Impairment Loss

Exploration and Evaluation ("E&E") Assets

As at September 30, 2019, impairment indicators were identified for E&E assets, primarily as a result the continued decrease in current and forward commodity pricing for natural gas as well as the financial condition of Bellatrix and the resulting impact on the capital program. No impairment was recognized on E&E assets as the recoverable amount of the assets exceeded their carrying value. The estimated recoverable amount was based on a fair value less costs of disposal calculation determined primarily on recent and relevant land sales. As at December 31, 2019, Bellatrix performed an assessment of possible indicators of impairment on E&E assets, however, no additional impairment indicators outside of the circumstances identified at September 30, 2019 were identified.

Property, Plant and Equipment ("PP&E")

In the third quarter of 2019, as a result of the continued decrease in current and forward commodity pricing for natural gas as well as the financial condition of Bellatrix and the resulting impact on the capital program, Bellatrix determined that there were impairment indicators present for its Central Alberta cash generating unit ("CGU"), and therefore, completed an impairment test for this CGU. As at December 31, 2019, Bellatrix performed an assessment of possible indicators of impairment or impairment reversal on all of the Company's CGUs, however, no additional impairment indicators outside of the circumstances identified at September 30, 2019 were identified. Consequently, there were no additional impairment tests performed at December 31, 2019.

For the impairment test completed as at September 30, 2019, the recoverable amount of the Central Alberta CGU was determined using a fair value less costs to sell approach. The net present value of the before-tax cash flows from proved and probable developed producing oil and gas reserves, as determined by Bellatrix's independent reserve evaluator at December 31, 2018 and updated internally for 2019 drilling, year to date production and forward price estimates as of September 30, 2019, were calculated based on before-tax discount rates ranging from 10% to 15% related to proved and probable developed producing oil and gas reserves.

For the year ended December 31, 2019, a non-cash impairment loss of $630 million was recognized in the Company's Central Alberta CGU, of which $582 million was allocated to PP&E and $48 million was allocated to right-of-use ("ROU") assets. The estimated recoverable amount after decommissioning liabilities of the Central Alberta CGU as at September 30, 2019 was $526 million. The carrying value of the Company's corporate and ROU assets were allocated to the Central Alberta CGU carrying value used in the impairment calculation.

A 1% increase to the discount rates applied in the impairment calculation for the Central Alberta CGU would result in an increase in impairment loss of approximately $20 million for the year ended December 31, 2019, whereas a 1% decrease to the discount rates applied would result in a corresponding decrease to the impairment loss recognized.

For the year ended December 31, 2018, an impairment loss of $0.8 million was recognized in the Company's non-core North Alberta CGU determined using a value in use ("VIU") approach. The estimated recoverable amount after decommissioning liabilities of the North Alberta CGU as at December 31, 2018 was negative $5.2 million. A non-cash impairment loss of $1.3 million was recognized in the Company's non-core South Alberta CGU. The estimated recoverable amount after decommissioning liabilities of the South Alberta CGU was negative $18.9 million for the year ended December 31, 2018. The VIU of the North Alberta and South Alberta CGU was based on before-tax discount rates ranging from 15-20% related to a range of reserve categories.

FOREIGN EXCHANGE

Bellatrix incurs gains and losses in relation to the foreign currency translation of its United States dollar denominated Interim Financing, Second Lien Notes and Third Lien Notes, and prior to June 4, 2019, the Senior Notes (as defined below). At December 31, 2019 the Interim Financing, Second Lien Notes and Third Lien Notes are translated from the United States dollar to Canadian dollar using the closing foreign exchange rate for the period. Unrealized foreign exchange gains or losses are included in earnings in the period related to the translation of the outstanding balance of the Interim Financing, Second Lien Notes and Third Lien Notes at the end of the period and in the case of the Senior Notes, the outstanding balance prior to June 4, 2019. Realized foreign exchange gains and losses are recognized as the Interim Financing, Second Lien Notes, Third Lien Notes and other minor foreign currency based transactions are translated and settled during the period, including the extinguishment of the Senior Notes under the Recapitalization Transaction.

	Three months ended December 31,		Year ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Realized gain (loss) on foreign exchange	$ 339	$ (557)	$ (17,359)	$ (8,296)
Unrealized gain (loss) on foreign exchange [1] [2]	6,033	(16,567)	32,724	(18,617)
Unrealized gain (loss) on foreign exchange contracts	—	117	—	3,422
Gain (loss) on foreign exchange	**$ 6,372**	**$ (17,007)**	**$ 15,365**	**$ (23,491)**

(1) Exchange rate (CDN$/US$1.00) at December 31, 2019 was 1.2965.
(2) Exchange rate (CDN$/US$1.00) at December 31, 2018 was 1.3646.

For the three months and year ended December 31, 2019, Bellatrix recorded a foreign exchange gain of $6.4 million and a gain of $15.4 million, respectively. This was primarily due to the impact of the change in the value of the Canadian dollar relative to the United States dollar over the three months and year ended December 31, 2019 on the Company's United States dollar denominated Interim Financing, Second Lien Notes, and Third Lien Notes and prior to June 4, 2019, the Senior Notes, which resulted in an unrealized gain of $5.8 million and an unrealized gain of $15.0 million, respectively (2018: $16.6 million loss and $18.6 million loss, respectively). As a result of the extinguishment of the Senior Notes during the second quarter of 2019, a non-cash foreign exchange loss of $17.5 million was realized in the year ended December 31, 2019.

INCOME TAXES

Deferred income tax expense (recovery) is a non-cash item relating to temporary differences between the accounting and tax basis of Bellatrix's assets and liabilities. On May 28, 2019, the Government of Alberta substantively enacted a reduction in the provincial corporate tax rate from 12% to 8% over four years. The provincial tax rate decrease will be reduced to 11% effective July 1, 2019 and reduced by 1% on January 1 for each of the years 2020, 2021 and 2022. For the year ended December 31, 2019, the Company recognized a deferred income tax expense of nil, compared to a deferred tax expense of $48.3 million during 2018. As at December 31, 2019, Bellatrix was in a net unrecognized deferred tax asset position due to uncertainty of Bellatrix's ability to realize the tax assets in future years (refer to *Future Operations* section of this MD&A).

NET PROFIT (LOSS)

For the three months ended December 31, 2019, Bellatrix recognized a net loss of $16.5 million ($0.40 per basic share and diluted share), compared to a net loss of $89.8 million ($14.88 per basic share and diluted share) in the fourth quarter of 2018. The decrease in net loss recorded in the fourth quarter of 2019 compared to the same period in 2018 was primarily the result of a decrease in deferred tax expense, G&A, foreign exchange and depletion expenses, partially offset by a decrease in operating netbacks after risk management contracts.

For the year ended December 31, 2019, Bellatrix recognized a net loss of $704.9 million ($26.63 per basic and diluted share), compared to a net loss of $146.3 million ($29.40 per basic share and diluted share) in the same period in 2018. The increase in net loss recorded in 2019 compared to 2018 was primarily the result of an increase in impairment expense, offset by a decrease in deferred tax expense and an increase in the gain on the Recapitalization Transaction.

CASH FLOW FROM (USED IN) OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

Adjusted funds flow is a non-GAAP measure that does not have any standardized meaning under GAAP (refer to *Non-GAAP Measures*). Bellatrix's method of calculating adjusted funds flow may differ from that of other companies, and accordingly, may not be comparable to measures used by others.

Reconciliation of Cash Flow from Operating Activities to Adjusted Funds Flow

	Three months ended December 31,		Year ended December 31,	
($000s)	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	$ (1,379)	$ 28,239	$ 24,120	$ 62,475
Decommissioning costs incurred	618	874	1,641	2,242
Change in non-cash working capital	(2,686)	(13,605)	(109)	(16,692)
Adjusted funds flow	**$ (3,447)**	**$ 15,508**	**$ 25,652**	**$ 48,025**

Bellatrix's cash flow from operating activities for the three months ended December 31, 2019 decreased by 105% to negative $1.4 million ($0.03 per basic share and diluted share) from $28.2 million ($4.68 per basic share and diluted share) generated in the fourth quarter of 2018. The decrease in cash flow from operating activities from the fourth quarter of 2018 to 2019 was mainly attributable to a change in non-cash working capital, decrease in revenues and realized commodity risk management gains, offset partially by decreased production and G&A expenses. Bellatrix's cash flow from operating activities for the year ended December 31, 2019 decreased by 61% to $24.1 million ($0.91 per basic and diluted share) from $62.5 million ($12.60 per basic and diluted share) generated during 2018. The decrease in cash flow from operating activities between the years 2018 and 2019 was principally due to change in non-cash working capital and decreased production expenses, offset partially by a 10% decrease in realized average combined commodity prices as well as a 6% decrease in sales volumes.

Bellatrix generated adjusted funds flow of negative $3.4 million ($(0.08) per basic share and diluted share) in the fourth quarter of 2019, a decrease of 122% from $15.5 million ($2.52 per basic share and diluted share) generated in the comparative 2018 period. Adjusted funds flow decreased between 2018 and 2019 as a 22% decrease in sales volumes in the period was partially offset by a 10% increase in realized average combined commodity prices and a decrease in production expenses. Bellatrix generated adjusted funds flow of $25.7 million ($0.97 per basic share and diluted share) in the year ended December 31, 2019, a decrease of 47% from $48.0 million ($9.60 per basic and diluted share) generated in 2018. The decrease in adjusted funds flow between the years 2018 and 2019 was principally due to a 10% decrease in realized average combined commodity prices as well as a 6% decrease in sales volumes, partially offset by a decrease in production expenses.

CAPITAL EXPENDITURES

During the three months ended December 31, 2019, Bellatrix spent $0.3 million in exploration and development projects, compared to $13.7 million in the same period in 2018. During the year ended December 31, 2019, Bellatrix spent $27.6 million in exploration and development projects, compared to $50.3 million in the same period in 2018.

	Three months ended December 31,		Year ended December 31,	
Capital Expenditures *($000s)*	**2019**	**2018**	**2019**	**2018**
Lease acquisitions, retention, geological & geophysical	$ 48	$ 349	$ 443	$ 1,431
Drilling and completion	(25)	12,431	27,130	43,337
Facilities and equipment	283	874	3	5,561
Capital – exploration and development [1]	$ 306	$ 13,654	$ 27,576	$ 50,329
Capital – corporate assets	208	289	566	1,311
Property acquisitions	434	9,031	234	9,035
Total capital expenditures – cash	$ 948	$ 22,974	$ 28,376	$ 60,675
Property dispositions – cash [2]	(1)	(228)	(36)	(1,106)
Total net capital expenditures – cash	$ 947	$ 22,746	$ 28,340	$ 59,569
Property acquisitions – non-cash	2,892	21,497	2,892	21,498
Property disposition – non-cash	—	—	—	(2,452)
Other – non-cash [3]	(10,397)	(56)	(4,141)	(3,011)
Total capital expenditures – net [4]	**$ (6,558)**	**$ 44,187**	**$ 27,091**	**$ 75,604**

(1) Excludes capitalized costs related to decommissioning liabilities expenditures incurred during the period.
(2) Property dispositions – cash does not include transaction costs.
(3) Other includes non-cash adjustments for the current period's decommissioning liabilities and capitalized share based compensation.
(4) Refer to "Non-GAAP measures" for the term "total capital expenditures – net"

During the year ended December 31, 2019, capital spending on exploration and development activities of $27.6 million was focused primarily on drilling five gross (5.0 net) operated wells, including four Spirit River wells and one Cardium well. Bellatrix completed the majority of its 2019 capital program during the first three months of the year with limited capital expenditures spent during the remaining quarters.

In the year ended 2018, capital spending on exploration and development activities of $50.3 million was focused primarily on drilling and completing 12 gross (8.2 net) Spirit River liquids rich natural gas wells and 2 gross (1.0 net) non-operated Cardium wells.

During the fourth quarter of 2019, Bellatrix completed an acquisition of assets from a joint venture partner within its core Ferrier area of west central Alberta that included approximately 800 boe/d of low decline production. The acquisition was funded through $2.9 million of working capital adjustments and the transaction was approved by the Monitor and the Interim Financing Lenders.

In the fourth quarter of 2018, Bellatrix completed two separate acquisitions of assets within its core Ferrier area of west central Alberta that included approximately 3,450 boe/d of low decline production. The acquisitions were funded through a combination of the issuance of 10.75 million common shares of Bellatrix, $9.4 million in cash and $9.1 million in purchase price adjustments.

DECOMMISSIONING LIABILITIES

($000s)		2019		2018
Balance, beginning of year	$	63,874	$	60,611
Incurred on development activities		412		678
Acquired through asset acquisitions		1,127		3,462
Revisions on estimates		(3,921)		37
Decommissioning costs incurred		(1,641)		(2,242)
Reversed on dispositions		—		—
Accretion expense		1,129		1,328
Balance, end of year	**$**	**60,980**	**$**	**63,874**

LIQUIDITY RISK AND CAPITAL MANAGEMENT

As an oil and gas company, Bellatrix has a declining asset base and therefore relies on ongoing development and acquisitions to replace production and add additional reserves. Future oil and natural gas production and reserves are highly dependent on the success of exploiting the Company's existing asset base and in identifying or acquiring additional reserves. To the extent Bellatrix is successful or unsuccessful in these activities, cash flow could be increased or decreased. In addition, the Company's cash flow depends on a number of factors, including commodity prices, sales volumes, production expenses, transportation expenses and royalties. As a result of the CCAA proceedings, the Company's liquidity is limited to cash flow from operations and the credit available pursuant to the Interim Financing. The Company has no plans for exploration and development capital expenditures during the CCAA proceedings.

The Company has been reviewing and evaluating potential options and alternatives to reduce the Company's debt. As at December 31, 2019, the Company's debt consisted of the Interim Financing, Credit Facilities, Second Lien Notes and Third Lien Notes. The Company did not make an interest payment due on October 1, 2019 as required under the Second Lien Notes Indenture (as defined below). On October 2, 2019 the Company obtained the Initial Order commencing CCAA proceedings and all obligations under these instruments became due and payable. Additionally, as at December 31, 2019, Bellatrix was in default of terms under the Credit Agreement (as defined below), Second Lien Notes Indenture and Third Lien Notes Indenture (as defined below); however, any efforts to enforce such payment obligations from the Company are stayed pursuant to the Initial Order granted in the CCAA proceedings and the creditors' rights of enforcement in respect thereof are subject to the applicable provisions of the Initial Order. As of March 31, 2020 the stay of proceedings was extended by Court order until May 7, 2020. Refer to section *Future Operations* for further discussion regarding the CCAA proceedings.

Interim Financing

In connection with the CCAA proceedings and in order to provide required liquidity during the Strategic Process and the CCAA proceedings, the Company and certain holders of its Second Lien Notes (the "Interim Financing Lenders"), entered into an agreement (the "Interim Financing Agreement") with respect to US$15 million of Interim Financing. Pursuant to the terms of the Interim Financing Agreement, the Interim Financing will bear interest at 10% per annum, compounded monthly. Amounts drawn under the Interim Financing are secured by a super priority charge on the Company's assets, pursuant to the Initial Order. Bellatrix was obligated to pay an initial fee of US$250,000, with an additional US$250,000 payable 30 days and 60 days, respectively, after the initial funding, for total fees of US$750,000. Proceeds of advances under the Interim Financing may be used to provide for general corporate and working capital purposes, including funding of the CCAA proceedings and pursuit of the Strategic Process, in accordance with the terms of the Interim Financing Agreement. The Interim Financing matures on the earliest of i) implementation of a transaction pursuant to the Strategic Process, ii) implementation of a plan of compromise or arrangement under the CCAA proceedings and iii) March 31, 2020. The maturity date may be extended with the consent of the Interim Financing Lenders and the Monitor. Subsequent to year end, Bellatrix repaid US$7.5 million of principal and accrued interest on the Interim Financing and extended the maturity date of the Interim Financing to May 29, 2020.

In addition to customary affirmative covenant obligations, the Interim Financing provides for certain information delivery requirements including a bi-weekly variance analysis of actual receipts and disbursements against the budget most recently approved by the Interim Financing Lenders. Additionally, the Interim Financing Agreement requires that there will be no negative variance in the Company's actual expenditures from that set out in the most recently approved budget, in excess of 10% on a cumulative basis, excluding advisor fees and expenses as defined in the Interim Financing Agreement.

The Interim Financing Agreement also contains customary negative covenants restricting certain of the Company's activities, including restrictions on the ability to incur indebtedness, incur liens, consummate certain fundamental changes, make investments, dispose of assets, enter into sale and lease transactions, and make restricted payments. Furthermore, the Interim Financing Agreement contains customary events of default, in addition to the negative budget variance discussed above, as well as certain other CCAA proceeding related events. In the event of default, the interest rate will increase by an additional 2% per annum until amounts owing under the Interim Financing are repaid in full.

A copy of the Interim Financing Agreement has been filed with the Court and may be accessed through the Monitor's website (www.pwc.com/ca/bellatrix).

Credit Facilities

At December 31, 2019, the Company had $82.3 million outstanding under its syndicated revolving credit facilities (the “Credit Facilities”) provided by three financial institutions. Under the terms of the second amended and restated credit agreement (the "Credit Agreement"), the revolving period under the Credit Facilities was set to expire on May 30, 2020. Upon the commencement of the CCAA proceedings on October 2, 2019, the maturity date of the Credit Facilities was accelerated; however, any efforts to enforce such payment obligations are stayed pursuant to the Initial Order. With the acceleration of the maturity of the Credit Facilities, the Company has no further ability to borrow thereunder.

The Credit Facilities bear interest at a floating rate. For the year ended December 31, 2019 the weighted average interest rate for amounts borrowed under the Credit Facilities was 5.62%. With the commencement of the CCAA proceedings, the Credit Facilities were subject to an incremental 2% default interest rate. The Credit Facilities are secured by a debenture containing a first ranking charge and security interest over the assets of the Company; however, the Interim Financing was granted a super priority charge on the Company's assets pursuant to the Initial Order. The Company has provided a negative pledge and undertaking to provide fixed charges over its properties in certain circumstances.

As at December 31, 2019, total outstanding letters of credit were $10.8 million.

A copy of the agreement governing the Credit Facilities has been filed with Canadian regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Recapitalization Transaction

On June 4, 2019, the Company completed a recapitalization transaction (collectively, the "Recapitalization Transaction") described in the Company's management information circular dated April 18, 2019 and implemented pursuant to a court-approved plan of arrangement under the *Canada Business Corporations Act*. The Recapitalization Transaction involved:

- an exchange of all of the Company’s outstanding Senior Notes plus all accrued and unpaid interest thereon for a combination of US$50 million of new Second Lien Notes due September 2023 (the “New Second Lien Notes”), US$54.8 million of third lien notes due December 2023 (the “Third Lien Notes”) and approximately 51% of the common shares of Bellatrix outstanding immediately following the implementation of the Recapitalization Transaction;
- an exchange of all of the Company’s outstanding Convertible Debentures plus all accrued and unpaid interest thereon for approximately 32.5% of the common shares of Bellatrix outstanding immediately following the implementation of the Recapitalization Transaction; and
- the Company's common shareholders prior to the implementation of the Recapitalization Transaction retained their common shares, subject to the Consolidation, such that such common shareholders owned approximately 16.5% of the common shares of Bellatrix outstanding upon implementation of the Recapitalization Transaction.

Immediately prior to the implementation of the Recapitalization Transaction, Bellatrix continued from the *Business Corporations Act* (Alberta) to the *Canada Business Corporations Act*.

A total of nil and $16.9 million, respectively, of transaction costs were incurred in the three months and year ended December 31, 2019 in relation to the Recapitalization Transaction. After deducting these transaction costs, Bellatrix recorded a gain of nil and $24.9 million, respectively, on the settlement of the Senior Notes and Convertible Debentures for the three months and year ended December 31, 2019.

Second Lien Notes

As at December 31, 2019, an aggregate of US$152.1 million of Second Lien Notes were outstanding. In connection with the completion of the Recapitalization Transaction on June 4, 2019, US$50 million of New Second Lien Notes due September 2023 were issued by Bellatrix. The Second Lien Notes bear interest at 8.5% per annum, payable quarterly, and are secured by a demand debenture over all of the Company’s assets, which is subordinated to the security provided under the Credit Facilities and the Interim Financing, which was granted a super priority charge on the Company's assets pursuant to the Initial Order.

The Company did not make an interest payment due on October 1, 2019 as required under the Second Lien Notes Indenture. Additionally, with the commencement of the CCAA proceedings on October 2, 2019, the full balance of the Second Lien Notes became due and payable; however, any efforts to enforce such payment obligations are stayed pursuant to the Initial Order.

During 2018, Bellatrix completed a debt refinancing transaction (the "Second Lien Refinancing") pursuant to a note purchase agreement ("Note Purchase Agreement") with certain holders of the Senior Notes (the “Exchanging Noteholders”) to exchange US$80.1 million of the Company’s Senior Notes for US$72.1 million of second lien notes due 2023 (the “Initial Second Lien Notes”).

In addition, the Exchanging Noteholders agreed to subscribe for between US$30 million and US$40 million of additional Second Lien Notes, with the proceeds to be used for capital expenditures, development capital and purchases of Senior Notes. During 2018 Bellatrix issued US$30 million of additional Second Lien Notes to the Exchanging Noteholders (collectively with the Initial Second Lien Notes and the New Second Lien Notes, the "Second Lien Notes").

As part of the implementation of the Recapitalization Transaction, the Note Purchase Agreement was converted into a note indenture governing all of the Second Lien Notes (the "Second Lien Notes Indenture").

Pursuant to the Note Purchase Agreement, in 2018 Bellatrix issued warrants to purchase an aggregate of 3,088,205 pre-Consolidation common shares of Bellatrix to the Exchanging Noteholders at a pre-Consolidation exercise price of $1.30 per common share expiring five years from the issuance date of the warrants. In connection with the implementation of the Recapitalization Transaction, the Company amended the exercise price of these warrants to reflect an exercise price of $3.03 per common share (post-Consolidation) and issued additional warrants to the Exchanging Noteholders which, together with those warrants originally held by the Exchanging Noteholders, are exercisable for an aggregate of 2,043,162 post-Consolidation common shares of Bellatrix.

Second Lien Notes *($000s)*		**Liability Component**		**Warrants**
Balance, December 31, 2017	$	—	$	—
Issuance of Second Lien Notes in exchange for Senior Notes [2]		92,451		1,652
Issuance of additional Second Lien Notes for cash proceeds		39,815		—
Unrealized foreign exchange loss [1]		4,719		—
Amortization of discount		112		—
Balance, December 31, 2018	$	137,097	$	1,652
Issuance of Second Lien Notes in exchange for Senior Notes pursuant to the Recapitalization Transaction		67,037		—
Unrealized foreign exchange gain [1]		(9,148)		—
Amortization of discount		2,084		—
Balance, December 31, 2019	**$**	**197,070**	**$**	**1,652**

(1) Exchange rate (CDN$/US$1.00) at December 31, 2019 was 1.2965 (December 31, 2018: 1.3646).
(2) Warrants component of Second Lien Notes is presented net of tax.

A copy of the Second Lien Notes Indenture has been filed with Canadian regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Third Lien Notes

On June 4, 2019, pursuant to the completed Recapitalization Transaction, US$54.8 million of Third Lien Notes due December 2023 were issued by Bellatrix. The indenture governing the Third Lien Notes (the "Third Lien Notes Indenture") provided for a special repayment of principal in the amount of US$4.9 million on December 2, 2019. With the commencement of the CCAA proceedings on October 2, 2019, the full balance of the Third Lien Notes is due and payable. Any efforts to enforce such payment obligations are stayed pursuant to the Initial Order.

The Third Lien Notes bear interest at 9.50% per annum, payable semi-annually, provided that until December 31, 2021, the Company has the option pursuant to the terms of the Third Lien Notes Indenture to elect to pay an interest rate of 12.50% per annum (the "PIK Interest Rate"), of which 9.50% would be deferred until maturity (the "PIK Interest") and 3.00% would be paid in cash. Pursuant to the terms of the Second Lien Notes Indenture, until June 30, 2021, the Company may not pay cash interest in excess of 4.75% per annum in respect of the Third Lien Notes and therefore, the Company must pay interest on the Third Lien Notes at the PIK Interest Rate. However, with the commencement of the CCAA proceedings, the Third Lien Notes were subject to an incremental 2% default interest rate. The Third Lien Notes are secured by a debenture over all of the Company’s assets, which is subordinated to the security provided under the Credit Facilities and Second Lien Notes, and the Interim Financing which was granted a super priority charge on the Company's assets pursuant to the Initial Order.

Third Lien Notes *($000s)*		**Amount**
Balance, December 31, 2018	$	—
Issuance of Third Lien Notes in exchange for Senior Notes pursuant to the Recapitalization Transaction		73,586
Unrealized foreign exchange gain [1]		(2,496)
Balance, December 31, 2019	**$**	**71,090**

(1) Exchange rate (CDN$/US$1.00) at December 31, 2019 was 1.2965.

A copy of the Third Lien Notes Indenture has been filed with Canadian regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Senior Notes

At December 31, 2019, the Company no longer had any outstanding 8.5% senior unsecured notes (the "Senior Notes"), all of which, in the outstanding principal amount of approximately US$145.8 million, together with $9.2 million of accrued and unpaid interest thereon, were exchanged pursuant to the Recapitalization Transaction effective June 4, 2019 for US$50 million of New Second Lien Notes, US$54.8 million of Third Lien Notes and 20,840,070 new post-Consolidation common shares of Bellatrix.

Convertible Debentures

At December 31, 2019, the Company no longer had any 6.75% convertible unsecured subordinated debentures due in 2021 (the "Convertible Debentures") outstanding, all of which, in the aggregate principal amount of $50 million, together with $2.3 million of accrued and unpaid interest thereon, were exchanged pursuant to the Recapitalization Transaction effective June 4, 2019 for 13,280,553 new post-Consolidation common shares of Bellatrix.

Bellatrix currently has commitments associated with the Credit Facilities outlined above and the commitments outlined under the *Commitments* section.

Liquidity

The Company has, for a significant period of time, been reviewing and evaluating potential options and alternatives to improve the Company's liquidity and capital structure. On October 2, 2019, the Company commenced CCAA proceedings (refer to *Future Operations*). In order to provide required liquidity during the Strategic Process and the CCAA proceedings, the Company obtained the US$15 million Interim Financing. Proceeds of advances under the Interim Financing may be used to provide for general corporate and working capital purposes, including funding of the CCAA proceedings and pursuit of the Strategic Process, in accordance with the terms of the Interim Financing. The Interim Financing will provide liquidity to allow Bellatrix to continue to operate its business while it pursues the Strategic Process in the CCAA proceedings. The Company has no plans for exploration and development capital expenditures during the CCAA proceedings. Subsequent to year end, a pandemic was declared related to COVID-19 which caused a significant worldwide reduction in demand for oil. In addition, certain concurrent actions taken by OPEC and Russia have resulted in a significant increase in worldwide supply of oil. As a result of the significant decrease in demand and the significant increase in supply, worldwide oil prices have declined precipitously; however, the Interim Financing is still expected to provide sufficient liquidity for the Company while the CCAA proceedings are ongoing through these market conditions.

On January 22, 2019, the Company announced that its Board of Directors had determined to commence procedures for the voluntary delisting of the Company's common shares from the NYSE. Bellatrix filed a Form 25 with the Securities and Exchange Commission ("SEC") to affect the voluntary delisting of Bellatrix's common shares from the NYSE and the effective date was February 12, 2019. On May 8, 2019 the Company filed a Form 15F to suspend, and ultimately terminate, the registration of its common shares with the SEC and its reporting obligations under the US Securities Exchange Act, as amended which became effective in the third quarter of 2019.

On October 2, 2019, trading of the Company's common shares on the TSX was halted and on November 8, 2019, the Company's common shares were delisted on the TSX due to failure to meet the continued listing requirements. Effective June 4, 2019, the Company consolidated its common shares on the basis of 12 old common shares outstanding for every 1 new common share, pursuant to the Consolidation. All figures in the financial statements and MD&A have been adjusted to reflect the Consolidation. The number of outstanding share options, Deferred Share Units, Restricted Awards and Performance Awards have also been adjusted proportionately. The corresponding exercise prices have increased by the same ratio. As at April 23, 2020, Bellatrix had outstanding a total of 347,066 options at an average exercise price of $12.72 per share and had 40,862,867 common shares outstanding. Additionally, Bellatrix had 436,787 DSUs, 4,467,452 PAs and 2,506,155 RAs outstanding as of April 23, 2020. Awards under the Award Plan may be settled in cash, in common shares of the Company, or a combination thereof. The value of the awards outstanding as at April 23, 2020 is subject to the outcome of the Strategic Process commenced on October 2, 2019. As at April 23, 2020, there were also warrants outstanding to purchase 2,043,162 common shares of Bellatrix at an exercise price of $3.03 per common share outstanding.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company had the following commitments and contractual obligations as at December 31, 2019:

Liabilities *($000s)*		**Total**		**< 1 Year**		**1-3 Years**		**3-5 Years**		**More than 5 years**
Accounts payable and accrued liabilities	$	32,387	$	32,387	$	—	$	—	$	—
Risk management liability		11,772		11,772		—		—		—
Interim Financing		13,613		13,613		—		—		—
Credit Facilities		82,256		82,256		—		—		—
Lease obligations and other [1]		102,556		18,038		35,495		27,387		21,636
Subject to potential compromise:										
Accounts payable and accrued liabilities		20,600		20,600		—		—		—
Second Lien Notes [1]		197,147		197,147		—		—		—
Interest payable on Second Lien Notes		8,448		8,448		—		—		—
Third Lien Notes		71,090		71,090		—		—		—
Interest payable on Third Lien Notes		5,597		5,597		—		—		—
Total	**$**	**545,466**	**$**	**460,948**	**$**	**35,495**	**$**	**27,387**	**$**	**21,636**

(1) Principal amount of the instruments

See *Future Operations* for additional information relating to the contractual obligations that are potentially subject to compromise.

Off-Balance Sheet Arrangements

Operating leases previously included in the Company's off-balance sheet arrangement are now disclosed in the balance sheet with the adoption of IFRS 16 (refer to *Critical Accounting Estimates and Accounting Policies*).

($000s)		**1 Year**		**2-3 Years**		**4-5 Years**		**More than 5 years**		**Total**
Transportation agreements [1]	$	11,231	$	11,762	$	22	$	—	$	23,015

(1) Transportation agreements is comprised of commitments to third parties to transport natural gas.

Under the CCAA proceedings, the Company has the ability to disclaim agreements to which the Company is a party, subject to the provisions of the CCAA. Bellatrix has disclaimed certain firm processing agreements which were no longer required for the current level of production. The total impact of off-balance sheet agreements disclaimed prior to year end was approximately $260 million. Subsequent to December 31, 2019, the Company further reduced its off-balance sheet transportation agreements commitment by approximately $11 million through disclaiming surplus capacity under its firm transportation contracts.

Bellatrix and Keyera Partnership ("Keyera") had entered into a midstream services and governance agreement ("MSGA") pursuant to which Bellatrix would have exclusive access to the purchased capacity (approximately 80.5 MMcf/d) for a term of 10 years. In exchange for exclusive access to the purchased capacity during the term, Keyera was entitled to receive a guaranteed fee calculated with reference to the capital fees that Keyera would otherwise receive in accordance with the terms of the construction, ownership and operation agreement governing the Alder Flats Plant. Subsequent to December 31, 2019, the Company disclaimed the MSGA with Keyera. Disclaiming the MSGA will not impact the Company's access to required capacity at the Alder Flats Plant, while providing cost savings on unutilized capacity.

See the information under the sections *Future Operations* and *Liquidity Risk* above relating to the ability of the Company to satisfy its future commitments.

WITHDRAWAL OF CORPORATE GUIDANCE AND FORWARD-LOOKING INFORMATION

In a press release dated January 15, 2019 entitled "Bellatrix Announces a Fourth Quarter 2018 Operational Update and 2019 Capital Budget" (the "January 15 Press Release"), Bellatrix published certain guidance relating to its 2019 capital budget, anticipated 2019 annual average production and the anticipated 2019 commodity mix of its production. In a press release dated August 7, 2019 entitled "Bellatrix Exploration Ltd. Announces Second Quarter 2019 Financial and Operating Results" (the "August 7 Press Release"), Bellatrix updated its previous guidance to reflect an anticipated change in the 2019 commodity mix of its production. As a result of Bellatrix initiating the CCAA proceedings, Bellatrix was not able to continue to fund its 2019 capital program in the manner contemplated by the guidance previously disclosed by the Company. In addition, while the CCAA proceedings are ongoing, the Company's operations are limited by the terms of the Interim Financing and by orders granted by the Court in the CCAA proceedings. Finally, the Company's future operations and capital program will be dependent on the outcome of the CCAA proceedings. As a result of the uncertainty associated with CCAA proceedings, many of the assumptions related to the previous guidance published by the Company were no longer accurate, including but not limited to, Bellatrix's ability to fund its 2019 capital program from its adjusted funds flow. As indicated in the Company's third quarter MD&A released on November 13, 2019, the Company withdrew all previously disclosed forward-looking information including, but not limited to, the guidance noted above as disclosed in the January 15 Press Release and the August 7 Press Release.

FINANCIAL REPORTING UPDATE

NEWLY ADOPTED ACCOUNTING POLICIES

IFRS 16 *Leases* ("IFRS 16")

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 replaces IAS 17 - "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of a ROU asset and lease obligation for most leases. All contracts that meet the definition of a lease under IFRS 16, including those previously accounted for as operating leases, were recorded on the balance sheet. The standard may be applied retrospectively or using a modified retrospective approach.

Initial Adoption

The Company has elected to use the modified retrospective approach which does not require restatement of prior period financial information as the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings. On initial adoption, Bellatrix elected to use the following practical expedients permitted under the standard:

- Certain short-term leases and leases of low value assets that have been identified at January 1, 2019 have not been recognized on the balance sheet.
- At January 1, 2019, Bellatrix has not recognized leases with terms ending within 12 months as short-term leases.
- Leases having similar characteristics are measured as a portfolio by applying a single discount rate.
- For certain leases having associated initial direct costs, Bellatrix has, at initial measurement on transition, excluded these direct costs from the measurement of the ROU asset.
- At January 1, 2019, any provision for onerous contracts previously recognized has been applied to the associated ROU asset recognized upon transition to IFRS 16. In these cases, there was no impairment assessment made under IAS 36 - “Impairment of Assets”.

On adoption of IFRS 16, the Company recognized lease obligations under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at January 1, 2019. The associated ROU assets are measured at the amount equal to the lease obligation on January 1, 2019 less any amount previously recognized under IAS 37 for onerous contracts with no impact on retained earnings. Leases accounted for as finance leases under IAS 17 were reclassified to ROU assets and lease obligations from property, plant and equipment.

Adoption of the new standard resulted in the recognition of an additional lease obligation of $100.9 million and ROU asset of $98.5 million. The Company’s leases that were recognized on its balance sheet at January 1, 2019 include office leases, compressor leases, equipment leases and vehicle leases.

Upon recognition, the Company's weighted average incremental borrowing rate used in measuring the lease obligation was 7.0 percent. The following provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease obligation as at January 1, 2019:

($000s)		**Amount**
Operating leases as disclosed at December 31, 2018	$	112,067
Less short-term leases		(121)
Add finance lease obligation		5,721
Discounted using Bellatrix's incremental borrowing rate		(16,754)
Lease obligation as at January 1, 2019	**$**	**100,913**

Ongoing Recognition and Measurement

The Company 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 Company 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 obligation at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease obligations 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 Company’s incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the lease obligation and finance costs. The finance cost is charged to net profit (loss) over the lease term. 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 or depleted using the unit-of-production method based on production volumes in relation to total estimated proven and probable reserves. The ROU asset may be adjusted for certain remeasurements of the lease obligation 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 the statement of profit (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

BUSINESS RISKS AND UNCERTAINTIES

The following explains how material risks and uncertainties impact Bellatrix's business:

Risks Related to Strategic Process

There is no certainty that the Strategic Process will result in a transaction that is executable by the Company or that will provide any return of value to the stakeholders of the Company. If the Company does not complete a transaction pursuant to the Strategic Process, it is uncertain that the Company would have the necessary resources to continue its business and operations as a going concern. Even if a transaction is completed as a result of the Strategic Process, there is no certainty as to how much value will be achieved by the various stakeholders of the Company and exactly what obligations of the Company will be subject to compromise. In addition, regardless of whether a transaction is completed or not, it is highly unlikely that the holders of common shares of the Company will receive any value or consideration for such common shares at any time in the future.

Risks Related to Interim Financing

In addition to customary covenants and events of default, the Interim Financing provides for events of default specific to the CCAA proceedings, including, among others, defaults if a successful bid is not approved by the Court by May 7, 2020, a transaction contemplated by a successful bid is not implemented by May 29, 2020**,** if Bellatrix fails to comply with the budget contained in the Interim Financing Agreement (subject to a 10% permitted variance) and for certain other insolvency proceeding-related events of default. An event of default would give the lenders the right to terminate their lending commitments and exercise other remedies available to them under the Interim Financing Agreement, subject to the Initial Order.

If, as a result of Bellatrix's breach of the terms thereof, the Interim Financing is terminated or Bellatrix's access to funding thereunder is restricted or terminated, the Company may not have sufficient cash availability to meet Bellatrix's operating needs or satisfy Bellatrix's obligations as they come due.

Liquidity Risks Relating to CCAA Proceedings

The Interim Financing provides for available loans in the aggregate amount of US$15 million, which is intended to be used for the financing of Bellatrix's ordinary working capital and general corporate needs and costs related to the CCAA proceedings, including certain fees and expenses of retained professionals, and for payment of certain expenses incurred by the Company prior to initiation of the CCAA proceeding, subject to the terms of the Initial Order. Additionally, there can be no assurance that the amounts of cash from operations together with amounts available under the Interim Financing will be sufficient to fund operations. In the event that cash flows and borrowings under the Interim Financing are not sufficient to meet Bellatrix's liquidity requirements, the Company may be required to seek additional financing. There can be no assurance that such additional financing would be available, or, if available, would be available on acceptable terms. Failure to secure any necessary additional financing would have a material adverse affect on Bellatrix's operations and ability to continue as a going concern.

Limited Ability to Pursue Strategic and Operational Initiatives During CCAA Proceedings

Under the CCAA proceedings, transactions outside the ordinary course of business are subject to the terms of the Initial Order and/or prior approval of the Court, which may limit Bellatrix's ability to respond in a timely manner to certain events or take advantage of certain opportunities. Additionally, the terms of the Interim Financing limit Bellatrix's ability to undertake certain business initiatives. These limitations include, among other things, restrictions on Bellatrix's ability to:

- incur indebtedness;
- incur liens;
- amend, terminate or modify material agreements;
- consummate certain fundamental changes, including any consolidation, merger or amalgamation;
- make investments;
- dispose of assets;
- make distributions and dividends; and
- enter into transactions with affiliates.

Risks Relating to Management Focus on CCAA Proceedings and Strategic Process

The requirements of the CCAA proceedings have consumed and will continue to consume a substantial portion of management's time and attention and leave them with less time to devote to the operation of Bellatrix's business. This diversion of attention may materially adversely affect the conduct of Bellatrix's business and, as a result, Bellatrix's financial condition and results of operations, particularly if the CCAA proceedings are protracted.

Public Health Crisis

Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as the recent COVID-19, may adversely affect the Company.

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency and on March 11, 2020, the World Health Organization declared the outbreak a pandemic. In China, reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel within China, temporary business closures, quarantines and a general reduction in consumer activity. The outbreak has spread throughout Europe and the Middle East and there have been cases of COVID-19 in Canada and the United States, causing the governments of most western countries, including Canada and the United States, to take certain actions to reduce the spread of the virus. Such actions have included imposing restrictions such as quarantines, school closures, restrictions on public gatherings, business closures and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Such public health crises can result in volatility and disruptions in the supply and demand for oil and natural gas, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk and inflation. In particular, oil prices have significantly weakened in response to the outbreak of COVID-19 as a result of reduced local, national and global travel and the corresponding reduction in demand. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak.

Should an employee or visitor in any of the Company's facilities, offices or work sites become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The 2020 outbreak of COVID-19 is one example of such an illness. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines. There can be no assurance that this virus or another infectious illness will not impact the Company's personnel and ultimately its operations.

At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company’s business, results of operations and financial condition and ability to complete a transaction pursuant to the Strategic Process.

Weakness and Volatility in the Oil and Natural Gas Industry

Market events and conditions, including global excess oil and natural gas supply, recent actions taken by OPEC, sanctions against Iran and Venezuela, slowing growth in China and emerging economies, weakening global relationships, conflict between the U.S. and Iran, isolationist and punitive trade policies, U.S. shale production, sovereign debt levels and political upheavals in various countries including growing anti-fossil fuel sentiment, have caused significant volatility in commodity prices. In particular, the significant worldwide reduction in the demand for oil resulting from the COVID-19 pandemic, combined with the concurrent actions taken by OPEC and Russia to increase oil supply have resulted in a significant collapse of oil prices. These events and conditions have caused a significant reduction in the valuation of oil and natural gas companies and a decrease in confidence in the crude oil and natural gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. In addition, the difficulties encountered by midstream proponents to obtain the necessary approvals on a timely basis to build pipelines, liquefied natural gas plants and other facilities to provide better access to markets for the crude oil and natural gas industry in Western Canada has led to additional downward price pressure on oil and natural gas produced in Western Canada. These factors may have a material adverse effect on the Company’s business, results of operations and financial condition and ability to complete a transaction pursuant to the Strategic Process.

Other Risks Related to the Oil and Gas Industry

Bellatrix's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers to the much larger integrated petroleum companies.

Bellatrix is subject to the various types of business risks and uncertainties including, among others:

- financial risks, which includes commodity price risk, counterparty risks, liquidity risks and other risks related to the Company's financing arrangements;
- finding and developing oil and natural gas reserves at economic costs;
- risks related to the estimation of the volume and value of the Company's reserves; and

- operational risks such as risks related to health and safety, transportation and processing restrictions, project execution and the environment.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

The reader is advised that the critical accounting estimates, policies and practices as described herein continue to be critical in determining Bellatrix's financial results.

The reader is cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines accounting policies and practices that are critical to determining Bellatrix's financial results.

Critical Accounting Judgments

Oil and Gas Reserves

Reserves and resources are used in the units of production calculation for depletion, depreciation and amortization and the impairment analysis which affect net profit or loss. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. Changes in these judgments could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on net profit as further information becomes available and as the economic environment changes.

Identification of CGUs

Bellatrix's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows, geography, geology, production profile and infrastructure of their assets.

Impairment Indicators and Impairment Reversal

Judgment is required to assess when impairment indicators exist and impairment testing is required with respect to exploration and evaluation assets and property, plant and equipment.

Joint Arrangements

Judgment is required to determine when the Company has joint control over an arrangement. In establishing joint control, the Company considers whether unanimous consent is required to direct the activities that significantly affect the returns of the arrangement, such as the capital and operating activities of the arrangement. Additionally, the Company assesses the rights and obligations arising from the arrangement by considering its governance structure, legal form and terms agreed upon by the parties sharing control, including the contractual rights of each partner, dispute resolution procedures, termination provisions and procedures for subsequent transactions in its determination of joint control.

Once joint control has been established, judgment is also required to classify the joint arrangement. The type of joint arrangement is determined through analysis of the rights and obligations arising from the arrangement by considering its legal structure, legal form and terms agreed upon by the parties sharing control. An arrangement that is not structured through a separate vehicle in which the controlling parties have rights to the assets, revenues and substantially all of the economic benefits generated through the arrangement, in addition to obligations for the liabilities and expenses, is classified as a joint operation. An arrangement in which these criteria are not met is classified as a joint venture.

Non-monetary Transactions

Judgment is required to determine whether non-monetary transactions have commercial substance.

Critical Estimates and Assumptions

Recoverability of asset carrying values

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

The assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amount that take into account factors such as reserves, future estimated commodity prices, royalties and costs, economic and market conditions, timing of cash flows, discount rates, the useful lives of assets and their related salvage values. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

Decommissioning obligations

Provisions for decommissioning obligations associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology.

Income taxes

Deferred tax assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgment. These differences could materially impact earnings.

Bellatrix has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results and actual results are compared to budgets in order to make more informed decisions on future estimates. For further information on the determination of certain estimates inherent in the financial statements, refer to note 4 “Critical Judgments and Accounting Estimates” in the financial statements as at and for the year ended December 31, 2019.

LEGAL, ENVIRONMENTAL REMEDIATION AND OTHER CONTINGENT MATTERS

The Company is involved in various claims and litigation arising in the normal course of business and as a result of the CCAA proceedings. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company’s favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceeding related to these and other matters or any amount which it may be required to pay by reason thereof would have a material adverse impact on its financial position or results of operations. In addition, all claims and litigation against Bellatrix in any court or tribunal are currently stayed pursuant to the Initial Order granted in the CCAA proceedings.

The Company reviews legal, environmental remediation and other contingent matters to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Company’s management monitors known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by the circumstances.

With the above risks and uncertainties the reader is cautioned that future events and results may vary substantially from that which Bellatrix currently foresees.

SELECTED QUARTERLY INFORMATION

The following table sets forth selected financial information of the Company for the quarters in 2019 and 2018.

2019 – Quarter ended (unaudited) *($000s, except per share amounts)*	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**
Total revenue	$ 68,483	$ 42,160	$ 35,310	$ 49,179
Net profit (loss)	(19,109)	3,728	(673,013)	(16,480)
Net profit (loss) per share				
Basic and diluted	(2.88)	0.22	(16.47)	(0.40)
Total net capital expenditures - cash	$ 20,564	$ 4,587	$ 2,241	$ 947

2018 – Quarter ended (unaudited) *($000s, except per share amounts)*	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**
Total revenue	$ 66,215	$ 54,022	$ 51,525	$ 56,949
Net profit (loss)	(12,901)	(34,768)	(8,882)	(89,788)
Net profit (loss) per share				
Basic and diluted	(0.26)	(0.63)	(0.14)	(1.24)
Total net capital expenditures - cash	$ 23,826	$ 5,882	$ 7,118	$ 22,746

The Company's total revenue generated decreased to $49.2 million in the fourth quarter of 2019 from $56.9 million in the comparative quarter of 2018 as a result of a decrease of 22% in sales volumes partially offset by 11% increase in realized average combined commodity prices. In the three months ended December 31, 2019, the Company's total cash expenditures were $3.8 million compared to $23.0 million in the comparative quarter of 2018.

The Company's total revenue generated decreased to $35.3 million in the third quarter of 2019 from $51.5 million in the comparative quarter of 2018 as a result of a decrease of 34% in realized average combined commodity prices. In the three months ended September 30, 2019, the Company's total cash expenditures were $2.3 million compared to $7.4 million in the comparative quarter of 2018.

The Company's total revenue generated decreased to $42.2 million in the second quarter of 2019 from $54.0 million in the comparative quarter of 2018 as a result of a decrease of 22% in realized average combined commodity prices. In the three months ended June 30, 2019, the Company's total cash expenditures were $4.6 million compared to $5.9 million in the comparative quarter of 2018.

The Company's total revenue generated increased to $68.5 million in the first quarter of 2019 from $66.2 million in the first quarter of 2018 as a result of a 3% increase in realized average combined commodity prices. Bellatrix incurred $20.6 million of total cash capital expenditures in the first quarter of 2019 compared to $24.4 million in the comparative 2018 period and focused its capital activity in the first quarter of 2019 primarily on drilling and completions projects.

SELECTED ANNUAL INFORMATION

The following table sets forth selected financial information of the Company for the most recently completed year ending December 31, 2019 and for comparative 2018 and 2017 years.

Years ended December 31, *($000s, except per share amounts)*	**2019**	**2018**	**2017**
Total revenue	$ 195,132	$ 228,712	$ 249,399
Net profit (loss)	(704,874)	(146,339)	(91,363)
Net profit (loss) per share			
Basic and diluted	(26.63)	(29.40)	(22.20)
Total net capital expenditures – cash	28,340	59,569	74,452
Total assets	618,300	1,235,743	1,340,923
Non-current financial (assets) liabilities			
Future income taxes	—	—	(48,298)
Decommissioning liabilities	59,398	61,487	58,687
Sales volumes (boe/d)	33,341	35,635	36,872

CONVERSION: The term barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf/bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. All boe conversions in this report are derived from converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.

NON-GAAP MEASURES: Throughout Bellatrix’s MD&A, the Company uses terms that are commonly used in the oil and natural gas industry, but do not have a standardized meaning presented by International Financial Reporting Standards (“IFRS”) and therefore may not be comparable to the calculations of similar measures for other entities. Management believes that the presentation of these non-GAAP measures provide useful information to investors and shareholders as the measure provide increased transparency and the ability to better analyze performance against prior periods on a comparable basis.

Operating netbacks are calculated by subtracting royalties, transportation and operating expenses from total revenue. Management believes this measure is a useful supplemental measure of the amount of total revenue received after transportation, royalties and operating expenses. The Company’s calculation of total revenue includes petroleum and natural gas sales and other income, and excludes commodity price risk management. Total capital expenditures – net includes the cash impact of capital expenditures and property dispositions, as well as the non-cash capital impacts of corporate acquisitions, property acquisitions, adjustments to the Company’s decommissioning liabilities and share based compensation. Bellatrix’s method of calculating these measures may differ from other entities, and accordingly, may not be comparable to measures used by other companies.

This MD&A contains the term “adjusted funds flow” which should not be considered an alternative to, or more meaningful than “cash flow from operating activities” as determined in accordance with GAAP as an indicator of the Company’s performance. Therefore reference to adjusted funds flow or adjusted funds flow per share may not be comparable with the calculation of similar measures for other entities. Management uses adjusted funds flow to analyze operating performance and leverage and considers adjusted funds flow to be a key measure as it demonstrates the Company’s ability to generate the cash necessary to fund future capital investments and to repay debt. Adjusted funds flow is calculated as cash flow from operating activities, excluding decommissioning costs incurred and changes in non-cash working capital incurred. The reconciliation between cash flow from operating activities and adjusted funds flow can be found in this MD&A. Adjusted funds flow per share is calculated using the weighted average number of shares for the period.

FORWARD LOOKING STATEMENTS: Certain information contained herein may contain forward looking statements within the meaning of applicable securities laws. The use of any of the words “position”, “continue”, “opportunity”, “expect”, “plan”, “maintain”, “estimate”, “assume”, “target”, “believe” “forecast”, “intend”, “strategy”, “will”, “elect”, “anticipate”, “enhance” and similar expressions are intended to identify forward-looking statements. More particularly and without limitation, this document contains forward-looking statements concerning Bellatrix's intent to continue to pay its employees for services rendered during the CCAA proceedings; Bellatrix's intent to pay its suppliers for goods and services provided to the Company following the commencement of the CCAA proceedings; the Company's intent to explore market interest with a range of potential parties and remain engaged in ongoing discussions with certain existing key stakeholders in connection with the Strategic Process; potential obligations of the Company that could be subject to potential compromise as a result of the CCAA proceedings; the Company's ability to continue future operations as a going concern; the ability of the Company and/or the Purchaser to timely satisfy *conditions and implement the Transaction based on the currently contemplated terms, including matters relating to the CCAA proceedings; the ability of the Company and/or the Purchaser to obtain all necessary approvals in order to complete the Transaction, including in connection with the CCAA proceedings; whether the Company will receive the consideration and other benefits expected to be received or realized from the Transaction; and the expected gross cash G&A expense reductions as a result of staff reductions. Forward-looking statements necessarily involve risks, including, without limitation, the risks as identified under the headings "Future Operations", "Liquidity and Capital Resources" and "Business Risks and Uncertainties" herein. Events or circumstances may cause actual results to differ materially from those predicted, as a result of the risk factors set out herein and other known and unknown risks, uncertainties and other factors, many of which are beyond the control of Bellatrix. In addition, forward looking statements or information are based on a number of factors and assumptions as set out herein which have been used to develop such statements and information but which may prove to be incorrect and which have been used to develop such statements and information in order to provide shareholders with a more complete perspective on Bellatrix's future operations. Such information may prove to be incorrect and readers are cautioned that the information may not be appropriate for other purposes. Although the Company believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. Readers are cautioned that the factors and assumptions identified herein are not exhaustive of all factors and assumptions which have been used. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Furthermore, the forward looking statements contained herein are made as at the date hereof and Bellatrix does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

The reader is further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bellatrix Exploration Ltd.

Opinion

We have audited the financial statements of Bellatrix Exploration Ltd. (the “Company”), which comprise:

- the balance sheets as at December 31, 2019 and December 31, 2018
- the statements of profit (loss) and comprehensive income (loss) for the years then ended
- the statements of shareholders’ equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the 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 financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its 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.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the financial statements, which indicates that the Company obtained a court order to commence proceedings under the Companies’ Creditors Arrangement Act to address its financial liquidity condition and advance a strategic review process.

As stated in note 2 in the financial statements, these events or conditions, along with other matters set forth in note 2 in the financial statements, indicate that a material uncertainty exists that cast significant doubt on the Company’s ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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 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 Stephanie Regier Pankratz.

(signed) "KPMG LLP"

Chartered Professional Accountants
Calgary, Canada
April 23, 2020

BELLATRIX EXPLORATION LTD.
BALANCE SHEETS
(expressed in Canadian dollars)
As at December 31,

($000s)		2019		2018
ASSETS				
Current assets				
Cash	$	14,882	$	—
Accounts receivable (note 6)		28,996		36,955
Deposits and prepaid expenses		3,896		3,516
Current portion of risk management asset (note 6)		—		9,852
		47,774		50,323
Risk management asset (note 6)		—		3,291
Exploration and evaluation assets (note 8)		16,940		17,707
Property, plant and equipment (note 9)		518,882		1,164,422
Right-of-use assets (note 10)		34,704		—
Total assets	$	618,300	$	1,235,743
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	32,387	$	61,211
Current portion of lease obligations and other (note 12)		12,475		1,909
Current portion of risk management liability (note 6)		11,772		917
Interim Financing (note 7)		13,613		—
Credit Facilities (note 7)		82,256		47,763
Liabilities subject to potential compromise (note 2c)		302,805		—
Current portion of decommissioning liability (note 11)		1,582		2,387
		456,890		114,187
Second Lien Notes (note 7)		—		137,097
Senior Notes (note 7)		—		196,000
Convertible Debentures (liability component) (note 7)		—		41,732
Risk management liability (note 6)		—		1,652
Lease obligations and other (note 12)		68,697		10,863
Decommissioning liabilities (note 11)		59,398		61,487
Total liabilities		584,985		563,018
SHAREHOLDERS' EQUITY				
Shareholders' capital (note 13)		1,177,976		1,112,619
Warrants (note 7)		1,652		1,652
Convertible Debentures (equity component) (note 7)		—		7,818
Contributed surplus		64,424		56,499
Retained earnings (deficit)		(1,210,737)		(505,863)
Total shareholders' equity		33,315		672,725
Total liabilities and shareholders' equity	$	618,300	$	1,235,743

GOING CONCERN AND SUBSEQUENT EVENT *(note 2c)*

COMMITMENTS *(note 20)*

See accompanying notes to the financial statements.

On behalf of the Board of Directors

(signed) *"Cody Church"*
Cody Church
Director, Chairman Audit Committee

(signed) *"Todd Dillabough"*
Todd Dillabough
Director, Chairman of the Board

BELLATRIX EXPLORATION LTD.
STATEMENTS OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(expressed in Canadian dollars)
For the years ended December 31,

($000s, except per share amounts)	2019	2018
REVENUES		
Petroleum and natural gas sales (note 14)	$ 187,428	$ 223,136
Other income (note 14)	7,704	5,576
Total revenues	195,132	228,712
Royalties	(16,650)	(23,789)
Total revenues net of royalties	178,482	204,923
Realized gain on commodity contracts (note 6)	121	30,536
Unrealized gain (loss) on commodity contracts (note 6)	(22,346)	(18,082)
Revenues net of royalties and commodity contracts	156,257	217,377
EXPENSES		
Production	74,455	97,526
Transportation	30,821	27,285
General and administrative	17,679	28,389
Restructuring	3,216	—
Share-based compensation (note 15)	(723)	(503)
Depletion and depreciation (note 9 and 10)	98,354	105,286
Impairment (note 9 and 10)	630,000	2,140
Other expenses (notes 6(c) and 12)	4,609	5,362
(Gain) loss on dispositions (note 9 and 10)	(3,930)	(8,164)
	854,481	257,321
NET PROFIT (LOSS) BEFORE FINANCE AND TAXES	(698,224)	(39,944)
(Gain) loss on Recapitalization Transaction and debt settlement (net of transaction costs) (note 7)	(24,887)	(6,145)
Finance expenses (note 17)	46,902	40,754
Realized (gain) loss on foreign exchange (note 18)	17,359	8,296
Unrealized (gain) loss on foreign exchange (note 18)	(32,724)	15,195
NET PROFIT (LOSS) BEFORE TAXES	(704,874)	(98,044)
TAXES		
Deferred tax expense (recovery) (note 16)	—	48,295
NET PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ (704,874)	$ (146,339)
Net profit (loss) per share *(note 19)*		
Basic	$(26.63)	$(29.40)
Diluted	$(26.63)	$(29.40)

See accompanying notes to the financial statements.

BELLATRIX EXPLORATION LTD.
STATEMENTS OF SHAREHOLDERS' EQUITY
(expressed in Canadian dollars)
For the years ended December 31,

($000s)	**2019**	**2018**
SHAREHOLDERS' CAPITAL		
Common shares *(note 13)*		
Balance, beginning of year	$ 1,112,619	$ 1,068,377
Issued for property acquisition, net of tax effect	—	12,053
Issued on Convertible Debentures settlement	25,499	—
Issued on Senior Notes settlement	40,013	31,306
Flow through shares issued	—	1,143
Share issue costs on equity issue, net of tax effect	(155)	(387)
Share-based compensation awards	—	127
Balance, end of year	1,177,976	1,112,619
WARRANTS		
Balance, beginning of year	1,652	—
Warrants issued, net of tax (note 7)	—	1,652
Balance, end of period	1,652	1,652
CONVERTIBLE DEBENTURES (EQUITY COMPONENT) *(note 7)*		
Balance, beginning of year	7,818	7,818
Convertible Debentures settled	(7,818)	—
Balance, end of year	—	7,818
CONTRIBUTED SURPLUS		
Balance, beginning of year	56,499	56,092
Share-based compensation expense (note 15)	107	525
Convertible Debentures settled	7,818	—
Adjustment of share-based compensation expense for forfeitures of unvested share options	—	(118)
Balance, end of year	64,424	56,499
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of year	(505,863)	(358,265)
Settlement of Senior Notes, net of tax effect (note 7)	—	(1,259)
Net profit (loss)	(704,874)	(146,339)
Balance, end of year	(1,210,737)	(505,863)
TOTAL SHAREHOLDERS' EQUITY	$ 33,315	$ 672,725

See accompanying notes to the financial statements.

BELLATRIX EXPLORATION LTD.
STATEMENTS OF CASH FLOWS
(expressed in Canadian dollars)
For the years ended December 31,

($000s)	2019	2018
Cash provided from (used in):		
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES		
Net profit (loss)	$ (704,874)	$ (146,339)
Adjustments for:		
Impairment (note 9 and 10)	630,000	2,140
Depletion and depreciation (note 9 and 10)	98,354	105,286
(Gain) loss on dispositions (note 9 and 10)	(3,930)	(8,164)
Other expenses (notes 6(c) and 12)	3,901	5,362
Accretion on decommissioning obligations (note 11)	1,129	1,328
Non-cash financing and accretion	8,031	5,035
Share-based compensation (note 15)	(723)	(393)
Unrealized (gain) loss on commodity contracts (note 6)	22,346	18,082
Unrealized (gain) loss on foreign exchange (note 18)	(32,724)	15,195
Deferred tax expense (recovery) (note 16)	—	48,295
(Gain) loss on Recapitalization Transaction and debt settlement (note 7)	(24,887)	(6,145)
Realized foreign exchange on Senior Note Settlements (note 7)	17,536	8,343
Interest settled non-cash - Senior Notes and Convertible Debentures (note 7)	11,493	—
Decommissioning costs incurred (note 11)	(1,641)	(2,242)
Change in non-cash working capital (note 22)	109	16,692
	24,120	62,475
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		
Issuance of Second Lien Notes (note 7)	—	39,815
Transaction costs related to Recapitalization Transaction (note 7)	(16,868)	(3,617)
Issuance of share capital, net of issue costs (note 13)	(155)	615
Settlement of share based payments	(125)	(457)
Advances from (repayment of) Interim Financing	13,613	—
Advances from (repayment of) Credit Facilities	34,493	(4,303)
Repayment of lease liability (note 12)	(16,154)	—
Financing obligations (note 12)	—	(2,675)
Deferred lease inducements (note 12)	—	(332)
Deferred capital obligations (note 12)	—	(3,795)
Change in non-cash working capital (note 22)	3,346	(6,371)
	18,150	18,880
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		
Expenditure on exploration and evaluation assets (note 8)	(106)	(577)
Additions to property, plant and equipment (note 9)	(28,270)	(69,515)
Proceeds on sale of property, plant and equipment	36	1,106
Change in non-cash working capital (note 22)	952	(12,369)
	(27,388)	(81,355)
Change in cash	14,882	—
Cash, beginning of year	—	—
Cash, end of year	$ 14,882	$ —
Cash paid:		
Interest	$ 9,600	$ 35,018
Taxes	$ —	$ —

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in Canadian dollars)

1. CORPORATE INFORMATION

Bellatrix Exploration Ltd. (“Bellatrix” or the “Company”) is a Western Canadian based oil and gas company engaged in the exploration for, and the acquisition, development and production of oil and natural gas reserves, with highly concentrated operations in west central Alberta, principally focused on development of the Spirit River liquids rich natural gas play.

On October 2, 2019, trading of the Company's common shares on the Toronto Stock Exchange ("TSX") was halted (see note 2c) and on November 8, 2019, the Company's common shares were delisted from the TSX due to failure to meet the TSX's continued listing requirements.

On May 8, 2019, Bellatrix filed a Form 15F with the United States Securities and Exchange Commission to voluntarily terminate the registration of its securities and its reporting obligations under Section 13(a) and Section 15(d) of the United States Securities Exchange Act of 1934, as amended ("Exchange Act"). Bellatrix’s Exchange Act reporting obligations were immediately suspended upon filing the Form 15F. The termination of Bellatrix’s registration and reporting obligations under Section 13(a) and Section 15(d) of the Exchange Act was effective 90 days after filing.

Bellatrix was incorporated in Alberta, Canada and has been continued from the *Business Corporations Act* (Alberta) to the *Canada Business Corporations Act*. The Company’s registered office and principal place of business is located at 1920, 800 - 5th Avenue SW, Calgary, Alberta, Canada, T2P 3T6.

2. BASIS OF PREPARATION

a. Statement of Compliance

These financial statements (“financial statements”) were authorized by the Board of Directors on April 23, 2020. The Company prepared these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

b. Basis of Measurement

The financial statements are presented in Canadian dollars, the Company’s functional currency, and have been prepared on the historical cost basis except for derivative financial instruments and liabilities for cash-settled share-based payment arrangements measured at fair value. The financial statements have, in management’s opinion, been properly prepared using careful judgment and reasonable limits of materiality, and within the framework of the significant policies summarized in note 3. Significant estimates and judgments used in the preparation of the financial statements are detailed in note 4.

c. Basis of Presentation and Going Concern

For a significant period of time, the Company has been reviewing and evaluating potential options and alternatives to improve the Company’s liquidity and capital structure. In connection with the need to address the Company’s liquidity constraints and advance a strategic process to address the Company's challenging financial position, on October 2, 2019, the Company obtained an initial order (the “Initial Order”) from the Court of Queen’s Bench of Alberta (the “Court”) commencing proceedings under the *Companies’ Creditors Arrangement Act* (“CCAA”). PricewaterhouseCoopers Inc. was appointed as monitor (the “Monitor”) in the CCAA proceedings.

Pursuant to the Initial Order, among other things, a stay of proceedings was granted in respect of the Company and since the Initial Order, the stay of proceedings has been subsequently extended by the Court until, most recently, May 7, 2020. Bellatrix intends to continue to pay its employees for services rendered during the CCAA proceedings and intends to pay its suppliers for goods and services provided to the Company following the commencement of the CCAA proceedings.

Concurrent with the Initial Order, Bellatrix initiated a sale and investment solicitation process (the "Strategic Process") to identify and pursue potential strategic options and alternatives with respect to Bellatrix to maximize value for the benefit of the Company's stakeholders. The Strategic Process continues to explore a broad range of strategic options and alternatives that may be available to the Company, including, but not limited to, transactions involving the sale of all or a portion of the business and assets or shares of the Company, or refinancing, recapitalization or other restructuring transactions.

In connection with the commencement of the Strategic Process and the CCAA proceedings, Bellatrix obtained US$15 million of interim financing (the “Interim Financing”) from certain holders of its Second Lien Notes (defined in note 7 below), and the Interim Financing was approved by the Court pursuant to the Initial Order. The Interim Financing provides the Company with additional funding to support its ongoing operations while Bellatrix pursues the Strategic Process (refer to note 7 below).

Under the terms of the Initial Order and the stay of proceedings, any actions against Bellatrix to enforce or otherwise effect payment from Bellatrix of obligations was stayed during the CCAA proceedings. As at December 31, 2019, in connection with the CCAA proceedings, the Company identified the following obligations that are subject to potential compromise:

($000s)		**Amount**
Second Lien Notes	$	197,070
Interest payable on Second Lien Notes		8,448
Third Lien Notes		71,090
Interest payable on Third Lien Notes		5,597
Accounts payable and accrued liabilities		20,600
Total liabilities subject to potential compromise	**$**	**302,805**

The above amounts represent their amortized cost as at December 31, 2019 and have not been adjusted to fair value. As indicated above, the above obligations that are subject to potential compromise are based on management of the Company's best estimate as to the potential outcomes of the Strategic Process; however, the extent of potential compromise, is subject to future events including completion of the Strategic Process and the amounts may be subject to material adjustments. To the extent that the result of the Strategic Process is more favourable to the Company and its stakeholders than currently anticipated, some of the obligations may not be subject to the full compromise as anticipated above. To the extent that the result of the Strategic Process is less favourable to the Company and its stakeholders than currently anticipated, additional obligations may be subject to the compromise than those which are anticipated above.

The Company continues to move forward with the CCAA proceedings and evaluate sale and restructuring options pursuant to the Strategic Process. On April 23, 2020, the Company entered into an asset purchase agreement with Return Energy Inc., through its wholly-owned subsidiary, Winslow Resources Inc. (the “Purchaser”) whereby the Purchaser will acquire substantially all of the assets of Bellatrix for cash consideration of approximately $87.4 million plus the assumption of certain liabilities at closing (the “Transaction”). The Transaction remains subject to the approval of the Court in the Company’s CCAA Proceedings, certain other regulatory and third party approvals and applicable conditions. It is expected that the Transaction will be completed prior to the end of June 2020.

The proceeds of the Transaction will repay the Interim Financing in full and are expected to be sufficient to repay a substantial portion of the obligations under the Company’s Credit Facilities (defined in note 7 below), subject to a number of factors which could affect the overall recovery and distributions resulting from the Transaction. It is not anticipated that there will be sufficient proceeds for distributions to other secured or unsecured creditors of the Company.

Future operations are dependent on the Company being able to restructure its balance sheet to provide the opportunity to generate positive cash flow from operations, maintain existing operations and have the ability to discharge obligations as they become due. Also, future operations are dependent on the Company’s ability to comply with the covenants contained in the Interim Financing Agreement (defined in note 7 below), the Company’s ability to successfully complete the Strategic Process and obtain Court and required stakeholder approval of any transaction or plan of compromise arising therefrom. Additionally, the rapidly evolving events in early 2020 related to the novel coronavirus ("COVID-19") pandemic and severe decline in worldwide oil prices, may impact the timing or ability of the Company to complete the Strategic Process. At this point, the extent to which COVID-19 may impact the Company and the Strategic Process is uncertain; however, it is possible that COVID-19 may have an adverse effect on the Company’s business, results of operations and financial condition. The Company’s financial liquidity condition and the risks and material uncertainties associated with the implementation of the Strategic Process cause significant doubt about the Company’s ability to meet its obligations and the Company's ability to continue as a going concern.

The financial statements have been prepared on a basis which assumes that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner giving consideration to expected possible outcomes. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that may be necessary should the Company not continue as a going concern. These adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Revenue Recognition

Revenue from the sale of crude oil, natural gas, condensate and natural gas liquids (“NGLs”) is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. Bellatrix 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 delivery mechanism agreed with the customer, often pipelines or other transportation methods. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of Bellatrix's variable revenue is considered to be constrained.

Bellatrix evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if Bellatrix obtains control of the product delivered, which is indicated by Bellatrix having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Bellatrix 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 Company from the transaction.

Processing fees charged to other entities for use of pipelines and facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Processing fees charged to other entities under contracts with customers are recognized in revenue when the related services are provided.

Bellatrix's revenue transactions do not contain significant financing components and payments are typically due on the 25th day of the month following delivery. The Company does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year. The Company does not disclose or quantify information about remaining performance obligations that have an original expected duration of one year or less.

b. Transportation

Costs paid by Bellatrix for the transportation of crude oil, natural gas, condensate and NGLs to the point of control transfer are recognized when the transportation is provided.

c. Joint Interests

A portion of the Company's exploration and development activities are conducted jointly with others. The joint interests are accounted for on a proportionate consolidation basis and as a result, the financial statements reflect only the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows from these activities.

d. Property, Plant and Equipment and Exploration and Evaluation Assets

I. Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed by the Company as incurred.

II. Exploration and evaluation expenditures

Once the legal right to explore has been acquired, costs incurred are capitalized as intangible exploration and evaluation assets ("E&E"). These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to an identifiable well and directly attributable general and administrative costs. These costs are accumulated in cost centres by property and are not subject to depletion, until technical feasibility and commercial viability have been determined.

E&E assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, or if facts and circumstances suggest that the carrying amount is unlikely to be recovered.

III. Developing and production costs

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses net of recoveries.

IV. Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a well, field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

V. Depletion and depreciation

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes in relation to total estimated proven and probable reserves as determined annually by independent engineers in accordance with National Instrument 51-101, Standards of Disclosure of Oil and Gas Activities. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

Calculations for depletion are based on total capitalized costs plus estimated future development costs of proven and probable undeveloped reserves less the estimated net realizable value of production equipment and facilities after the proved and probable reserves are fully produced.

Depreciation is recognized on significant facilities to expense the cost of significant components of assets less their residual values over their useful lives. Phase 1 and Phase 2 of the Alder Flats Plant and associated equipment are depreciated using the straight-line method over estimated useful lives as follows:

- General plant and processing equipment - 40 years
- Other properties and equipment - 10 years
- Turnarounds - 5 years

Depreciation of office furniture and equipment is provided for on a 20% - 40% declining balance basis.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and, if necessary, any changes would be accounted for prospectively.

VI. Dispositions

Gains on disposal of an item of PP&E or E&E are determined by comparing the proceeds from disposal with the carrying amount of PP&E or E&E and are recognized separately in the Statements of Profit (Loss) and Comprehensive Income (Loss). Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the Statements of Profit (Loss) and Comprehensive Income (Loss).

e. Impairment

I. Financial assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable.

The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset and are measured as the difference between the present value of the cash flows due to Bellatrix and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, counterparty's identity, customers pay practices and the terms of the contract under which the obligation arose. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized within general and administrative ("G&A") expense in the Statements of Profit (Loss) and Comprehensive Income.

Based on industry experience, the Company considers its accounts receivable to be in default when the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Bellatrix derecognizes the gross carrying amount of the financial asset and the associated allowance from the balance sheets.

II. Non-financial assets

Developing and producing assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The impairment test is performed at the asset or CGU level.

The recoverable amount of an asset or a cash-generating unit ("CGU") is the greater of its value in use (“VIU”) and its fair value less costs to sell (“FVLCS”). FVLCS is determined to be the amount for which the asset could be sold in an arm’s length transaction. FVLCS can be determined by using an observable market metric or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. VIU is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Company’s Statement of Profit (Loss) and Comprehensive Income (Loss) in the period in which it occurs.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

E&E assets are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in PP&E). E&E assets are grouped together with the Company’s CGU’s when they are assessed for impairment.

f. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, if the risks have not been incorporated into the estimate of cash flows. The increase in the provision due to the passage of time is recognized within finance expense.

Onerous contract provisions are recognized when the unavoidable costs of meeting the obligation exceed the economic benefit derived from the contract. The provision for onerous contracts is measured at the present value of estimated future cash flows underlying the obligations less any estimated recoveries, discounted at the risk-free rate.

I. Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Changes in the present value of the estimated expenditure are reflected as an adjustment to the liability and the relevant asset. The accretion or unwinding of the discount on the decommissioning provision is recognized as a finance expense. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision was recognized.

II. Environmental liabilities

The Company records liabilities on an undiscounted basis for environmental remediation efforts that are likely to occur and where the cost can be reasonably estimated. The estimates, including associated legal costs, are based on available information using existing technology and enacted laws and regulations. The estimates are subject to revision in future periods based on actual costs incurred or new circumstances. Any amounts expected to be recovered from other parties, including insurers, are recorded as an asset separate from the associated liability.

g. Share-based Payments

I. Equity-settled transactions

Bellatrix accounts for options issued under the Company's share option plan by reference to the fair value of the equity instruments granted. The fair value of each share option is estimated on the date of the grant using the Black-Scholes options pricing model and charged to earnings over the vesting period with a corresponding increase to contributed surplus. The Company estimates a forfeiture rate on the grant date and the rate is adjusted to reflect the actual number of options that actually vest. The expected life of the options granted is adjusted, based on the Company's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

II. Cash-settled transactions

The Company's Deferred Share Unit Plan (the "DSU Plan") is accounted for as a cash settled share based payment plan in which the fair value of the amount payable under the DSU Plan is recognized as an expense with a corresponding increase in liabilities. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

Awards under the Award Incentive Plan ("Award Plan") may be settled in cash, in common shares of the Company, or a combination thereof. The Award Plan is accounted for as a cash settled share based payment plan in which the fair value of the amounts payable under the Award Plan are recognized incrementally as an expense over the vesting period, with a corresponding change in liabilities. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in profit or loss.

h. Income Taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

I. Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid, to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the date of the statement of financial position.

II. Deferred tax

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 not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. 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, by the reporting date. 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.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i. Financial Instruments

All financial assets are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets.

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions:

(i). The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(ii). The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet condition (ii) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at FVOCI.

All other financial assets are subsequently measured at FVTPL, with changes in fair value recognized in profit or loss. Accounts receivable are classified and measured at amortized cost.

Financial liabilities are classified and measured at amortized cost using the effective interest rate method, except for derivatives that are liabilities, deferred share units, restricted awards and performance awards, which are all classified and measured at FVTPL. Accounts payable and accrued liabilities, liabilities subject to potential compromise, Interim Financing, Credit Facilities, Second Lien Notes, Third Lien Notes, Senior Notes (defined below) and Convertible Debentures (defined below) are classified and measured at amortized cost. The Company has the following classifications:

Financial Assets and Liabilities	Subsequent Measurement
Accounts receivable	Amortized cost
Commodity risk management contracts	FVTPL
Foreign exchange risk management contracts	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Liabilities subject to potential compromise	Amortized cost
Deferred share units	FVTPL
Restricted awards	FVTPL
Performance awards	FVTPL
Interim Financing	Amortized cost
Credit Facilities	Amortized cost
Second Lien Notes	Amortized cost
Third Lien Notes	Amortized cost
Senior Notes	Amortized cost
Convertible Debentures	Amortized cost

Financial instruments measured at fair value on the balance sheet require classification into one of the following levels of the fair value hierarchy:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Valuation based on inputs other than quoted prices included in level 1, that are observable directly or indirectly.

Level 3 – Valuation based on inputs that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The Company has categorized its financial instruments that are fair valued on the balance sheet according to the fair value hierarchy.

Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument using the effective interest rate method.

The Company utilizes financial derivatives and commodity sales contracts requiring physical delivery to manage the price risk attributable to anticipated sale of petroleum and natural gas production and foreign exchange exposures. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, financial derivatives are classified as FVTPL and are recorded on the balance sheet at fair value, with fair value changes recorded in profit or loss.

The derivative financial instruments are initiated within the guidelines of the Company's corporate hedging policy. This includes linking all derivatives to specific assets and liabilities on the balance sheet, to specific firm commitments, or forecasted transactions.

The Company accounts for its commodity sales and purchase contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, physical sales and purchase contracts are not recorded at fair value on the balance sheet. Settlements on these physical sales and purchase contracts are recognized in petroleum and natural gas sales.

j. Compound Financial Instruments

The Company's compound financial instruments are comprised of its warrants issued with the Second Lien Notes and the Convertible Debentures that can be converted to common shares at the option of the holder. The number of shares to be issued does not vary with changes in fair value.

The Second Lien Notes and Convertible Debentures liability component are recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the Second Lien Notes and Convertible Debenture and the fair value of the liability components. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the Second Lien Notes and Convertible Debentures is measured at amortized cost using the effective interest method. The warrants and equity component of the Convertible Debentures are not re-measured subsequent to initial recognition.

k. Lease Obligations

The Company adopted IFRS 16 *Leases* effective January 1, 2019. Refer to note 5 for further discussion regarding the Company's accounting policies for lease obligations.

l. Basic and Diluted per Share Calculations

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. The Company uses the treasury share method to determine the dilutive effect of share options. Under the treasury share method, only "in the money" dilutive instruments impact the diluted calculations in computing diluted per share amounts.

m. Finance Income and Expenses

Finance income is recognized as it accrues in profit or loss, using the effective interest method. Finance expense comprises interest expense on borrowings, amortization of financing costs and discounts and accretion of the discount on provisions.

n. Borrowing Costs

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

o. Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

p. Business Combinations

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate consideration transferred, measured at the acquisition date fair value. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in profit or loss. If the cost of the acquisition is more than the fair value of the net assets acquired, the difference is recognized on the balance sheet as goodwill. Acquisition costs incurred are expensed. The Company has adopted the amended IFRS 3 *Business Combinations* and utilizes the optional concentration test that permits a simplified assessment to determine whether an acquisition is made of a business or group of assets.

q. Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the period average rates of exchange. Translation gains and losses are included in earnings in the period in which they arise.

Bellatrix's functional and presentation currency is Canadian dollars.

4. CRITICAL JUDGMENTS AND ACCOUNTING ESTIMATES

The financial statements of the Company have been prepared by management in accordance with IFRS. The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period and accompanying notes. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

a. Critical Accounting Judgments

I. Oil and Gas Reserves

Reserves and resources are used in the units of production calculation for depletion, depreciation and amortization, and the impairment analysis which affect net profit or loss. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. Changes in these judgments could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on net profit as further information becomes available and as the economic environment changes.

II. Identification of CGUs

Bellatrix's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows, geography, geology, production profile and infrastructure of their assets.

III. Impairment Indicators and Impairment Reversal

Judgment is required to assess when impairment indicators exist and impairment testing is required with respect to exploration and evaluation assets and property, plant and equipment.

IV. Joint Arrangements

Judgment is required to determine when the Company has joint control over an arrangement. In establishing joint control, the Company considers whether unanimous consent is required to direct the activities that significantly affect the returns of the arrangement, such as the capital and operating activities of the arrangement. Additionally, the Company assesses the rights and obligations arising from the arrangement by considering its governance structure, legal form and terms agreed upon by the parties sharing control, including the contractual rights of each partner, dispute resolution procedures, termination provisions and procedures for subsequent transactions in its determination of joint control.

Once joint control has been established, judgment is also required to classify the joint arrangement. The type of joint arrangement is determined through analysis of the rights and obligations arising from the arrangement by considering its legal structure, legal form and terms agreed upon by the parties sharing control. An arrangement that is not structured through a separate vehicle in which the controlling parties have rights to the assets, revenues and substantially all of the economic benefits generated through the arrangement, in addition to obligations for the liabilities and expenses, is classified as a joint operation. An arrangement in which these criteria are not met is classified as a joint venture.

V. Non-monetary Transactions

Judgment is required to determine whether non-monetary transactions have commercial substance.

b. Critical Estimates and Assumptions

I. Recoverability of asset carrying values

The Company assesses its oil and gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

The assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amount that take into account factors such as reserves, future estimated commodity prices, royalties and costs, economic and market conditions, timing of cash flows, discount rates, the useful lives of assets and their related salvage values. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

II. Decommissioning obligations

Provisions for decommissioning obligations associated with the Company's drilling operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology.

III. Income taxes

Deferred tax assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly affect the amount of the deferred tax asset or liability calculated at a point in time. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgment. These differences could materially impact earnings.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

NEWLY ADOPTED ACCOUNTING POLICIES

IFRS 16 *Leases* ("IFRS 16")

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 replaces IAS 17 - "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of a right-of-use ("ROU") asset and lease obligation for most leases. All contracts that meet the definition of a lease under IFRS 16, including those previously accounted for as operating leases, were recorded on the balance sheet. The standard may be applied retrospectively or using a modified retrospective approach.

Initial Adoption

The Company has elected to use the modified retrospective approach which does not require restatement of prior period financial information as the cumulative effect of applying the standard to prior periods is recorded as an adjustment to opening retained earnings. On initial adoption, Bellatrix elected to use the following practical expedients permitted under the standard:

- Certain short-term leases and leases of low value assets that have been identified at January 1, 2019 have not been recognized on the balance sheet.
- At January 1, 2019, Bellatrix has not recognized leases with terms ending within 12 months as short-term leases.
- Leases having similar characteristics are measured as a portfolio by applying a single discount rate.
- For certain leases having associated initial direct costs, Bellatrix has, at initial measurement on transition, excluded these direct costs from the measurement of the ROU asset.
- At January 1, 2019, any provision for onerous contracts previously recognized has been applied to the associated ROU asset recognized upon transition to IFRS 16. In these cases, there was no impairment assessment made under IAS 36 - "Impairment of Assets".

On adoption of IFRS 16, the Company recognized lease obligations under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets are measured at the amount equal to the lease obligation on January 1, 2019 less any amount previously recognized under IAS 37 for onerous contracts with no impact on retained earnings. Leases accounted for as finance leases under IAS 17 were reclassified to ROU assets and lease obligations from property, plant and equipment.

Adoption of the new standard resulted in the recognition of an additional lease obligation of $100.9 million and ROU asset of $98.5 million. The Company's leases that were recognized on its balance sheet at January 1, 2019 include office leases, compressor leases, equipment leases and vehicle leases.

Upon recognition, the Company's weighted average incremental borrowing rate used in measuring the lease obligation was 7.0 percent. The following provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease obligation as at January 1, 2019:

($000s)		**Amount**
Operating leases as disclosed at December 31, 2018	$	112,067
Less short-term leases		(121)
Add finance lease obligation		5,721
Discounted using Bellatrix's incremental borrowing rate		(16,754)
Lease obligation as at January 1, 2019	**$**	**100,913**

Ongoing Recognition and Measurement

The Company 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 Company 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 obligation at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease obligations 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 Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the lease obligation and finance costs. The finance cost is charged to net profit (loss) over the lease term. 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 or depleted using the unit-of-production method based on production volumes in relation to total estimated proven and probable reserves. The ROU asset may be adjusted for certain re-measurements of the lease obligation 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 the statement of profit (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

6. FINANCIAL RISK MANAGEMENT

a. Overview

The Company has exposure to the following risks from its use of financial instruments:

- *Credit risk*
- *Liquidity risk*
- *Market risk*
- *Foreign exchange risk*
- *Commodity price risk*
- *Interest rate risk*

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

b. Capital Management

The Company's capital structure includes shareholders' equity, Interim Financing, Credit Facilities, Second Lien Notes, Third Lien Notes and working capital. Bellatrix does not pay dividends. As noted in note 2c, the Company did not meet its obligations as they came due and on October 2, 2019, the Company commenced CCAA proceedings to, among other things, pursue the Strategic Process. The Company's future capital structure is dependent on the outcome of the Strategic Process and the CCAA proceedings.

c. Credit Risk

Credit risk is the risk of financial loss to Bellatrix if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bellatrix's trade receivables from joint venture partners, petroleum and natural gas marketers, and financial derivative counterparties.

A substantial portion of Bellatrix's accounts receivable are with customers and joint interest partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Other expenses in the Statement of Comprehensive Income (Loss) includes a provision of $3.4 million primarily related to two joint venture partners recorded in the year ended December 31, 2019. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Bellatrix currently sells substantially all of its production to six primary purchasers under standard industry sale and payment terms. Under Bellatrix's credit policy, the most significant 60 day exposure to a single counterparty is approximately $23.5 million and the largest accounts receivable balance with a single counterparty at December 31, 2019 was $11.7 million. Purchasers of Bellatrix's natural gas, crude oil and natural gas liquids are subject to a periodic internal credit review to minimize the risk of non-payment. Bellatrix has continued to closely monitor and reassess the creditworthiness of its counterparties, including financial institutions. This has resulted in Bellatrix mitigating its exposures to certain counterparties by obtaining financial assurances or reducing credit where it is deemed warranted and permitted under contractual terms.

Bellatrix may be exposed to third party credit risk through its contractual arrangements with its current or future partners and joint venture partners, marketers of its petroleum and natural gas production, derivative counterparties and other parties.

As at December 31, 2019, accounts receivable was comprised of the following:

Aging *($000s)*	**Not past due (less than 90 days)**	**Past due (90 days or more)**	**Total**
Joint venture and other trade accounts receivable	$ 4,939	$ 7,089	$ 12,028
Revenue and other accruals	16,946	762	17,708
Less: Allowance for expected credit loss			
Balance, beginning of year	—	(1,582)	(1,582)
Receivables written off	—	4,194	4,194
Provision	—	(3,352)	(3,352)
Balance, end of year	**—**	**(740)**	**(740)**
Total accounts receivable	**$ 21,885**	**$ 7,111**	**$ 28,996**

The carrying amount of accounts receivable and risk management assets represent the maximum credit exposure.

d. Liquidity Risk

Liquidity risk is the risk that Bellatrix will not be able to meet its financial obligations as they become due. The Company has, for a significant period of time, been reviewing and evaluating potential options and alternatives to improve the Company's liquidity. On October 2, 2019, the Company commenced CCAA proceedings (refer to note 2c). In connection with the CCAA proceedings, Bellatrix obtained US$15 million of Interim Financing that is expected to provide sufficient liquidity to continue ongoing operations during the CCAA proceedings while Bellatrix pursues the Strategic Process. Subsequent to year end, a pandemic was declared related to COVID-19 which caused a significant worldwide reduction in demand for oil. In addition, certain concurrent actions taken by OPEC and Russia have resulted in a significant increase in worldwide supply of oil. As a result of the significant decrease in demand and the significant increase in supply, worldwide oil prices have declined precipitously; however, the Interim Financing is still expected to provide sufficient liquidity for the Company while the CCAA proceedings are ongoing through these market conditions.

The following are the contractual maturities of financial liabilities as at December 31, 2019 (refer to note 2c for additional information relating to the contractual obligations that are potentially subject to compromise):

Liabilities *($000s)*	**Total**	**< 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**
Accounts payable and accrued liabilities	$ 32,387	$ 32,387	$ —	$ —	$ —
Risk management liability	11,772	11,772	—	—	—
Interim Financing	13,613	13,613	—	—	—
Credit Facilities	82,256	82,256	—	—	—
Lease obligations and other [1]	102,556	18,038	35,495	27,387	21,636
Subject to potential compromise:					
Accounts payable and accrued liabilities	20,600	20,600	—	—	—
Second Lien Notes [1]	197,147	197,147	—	—	—
Interest payable on Second Lien Notes	8,448	8,448	—	—	—
Third Lien Notes	71,090	71,090	—	—	—
Interest payable on Third Lien Notes	5,597	5,597	—	—	—
Total	**$ 545,466**	**$ 460,948**	**$ 35,495**	**$ 27,387**	**$ 21,636**

(1) Principal amount of the instruments

e. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net profit or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

f. Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in the Canadian/United States dollar foreign exchange rate may impact the Company's cash flows and net profit (loss). The Company's realized commodity prices for crude oil and natural gas are based upon United States dollar denominated commodity prices. Fluctuations in the Canadian/United States dollar foreign exchange rate may thus impact commodity prices received by the Company. In addition, the Company has United States dollar denominated Interim Financing, Second Lien Notes, Third Lien Notes and related interest obligations of which future cash payments are directly impacted by the exchange rate in effect on the payment date.

The Company may utilize foreign exchange derivative contracts to manage foreign exchange risks in order to maintain cash flow stability. Foreign exchange derivative transactions are in accordance with the risk management policy that has been approved by the Board of Directors. The aggregate amount hedged under all foreign exchange derivative contracts is limited to the outstanding principal amount of the Interim Financing, Second Lien Notes, Third Lien Notes or 60% of the Company's United States dollar revenues over the previous three months. Additionally, the term of foreign exchange contracts is limited to the remaining term of the related Interim Financing, Second Lien Notes, Third Lien Notes or a maximum of three years.

For the year ended December 31, 2019, a $0.01 increase or decrease in the CDN$/US$ foreign exchange rate, with all other variables held constant, would impact the profit (loss) before income taxes by approximately $2.9 million.

g. Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also global economic events that dictate the levels of supply and demand.

The Company has utilized both financial derivatives and physical delivery sales contracts to manage commodity price risks. All such transactions were conducted in accordance with the commodity price risk management policy that has been approved by the Board of Directors.

The Company's formal commodity price risk management policy permits management to use specified price risk management strategies including fixed price contracts, costless collars and the purchase of floor price options, other derivative financial instruments and physical delivery sales contracts to reduce the impact of price volatility and ensure minimum prices for a maximum of thirty-six months beyond the current date. The program is designed to provide price protection on a portion of the Company's future production in the event of adverse commodity price movement, while retaining significant exposure to upside price movements. By doing this, the Company seeks to provide a measure of stability to cash flows from operating activities, as well as, to ensure Bellatrix realizes positive economic returns from its capital developments and acquisition activities.

As result of the CCAA proceedings and in accordance with counterparty agreements, certain risk management contracts were terminated with early settlements effective on or about October 2, 2019 and the Company realized a loss of $4.1 million. Any efforts to enforce payment obligations for associated claims are stayed under the CCAA proceedings.

For the year ended December 31, 2019, if the prices for AECO natural gas had increased or decreased by $0.10/mcf, with all other variables held constant, net loss before tax would have be impacted by $4.5 million. For the year ended December 31, 2019, if prices for WTI crude oil had increased or decreased by $1.00/bbl, with all other variables held constant, net profit would be impacted by $2.0 million.

During the year ended December 31, 2019, the Company monetized certain natural gas basis differential arrangements for proceeds of $3.1 million.

The Company no longer holds physical delivery contracts for natural gas to alternate markets for its expected sale or usage requirements and as a result these physical delivery contracts in place as at December 31, 2019 were marked to market as at December 31, 2019. The following is a summary of the net risk management asset (liability) as at December 31, 2019 and December 31, 2018:

($000s)		**2019**		**2018**
Current portion commodity contract asset	$	—	$	9,852
Commodity contract asset (long term)		—		3,291
Current portion commodity contract liability		11,772		(917)
Commodity contract liability (long term)		—		(1,652)
Net risk management asset (liability)	**$**	**11,772**	**$**	**10,574**

h. Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in the market interest rates. The Company is exposed to interest rate fluctuations on its Credit Facilities which bear a floating rate of interest. As at December 31, 2019, if interest rates had been 1% lower with all other variables held constant, net loss before income tax for the year ended December

31, 2019 would have been approximately $0.8 million lower, due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher.

i. Fair Value

The Company’s financial instruments as at December 31, 2019 include accounts receivable, deposits, risk management assets and liabilities, accounts payable and accrued liabilities, Interim Financing, Credit Facilities, Second Lien Notes and Third Lien Notes.

The fair value of accounts receivable, deposits, accounts payable and accrued liabilities not subject to potential compromise, and Interim Financing approximate their carrying amounts due to their short-terms to maturity. On October 2, 2019, Bellatrix commenced the Strategic Process and obtained the Initial Order (refer to note 2c) and as a result, the fair value of certain accounts payable and accrued liabilities, Second Lien Notes and Third Lien Notes may be subject to potential compromise. Due to the high ranking security of the Credit Facilities under the Strategic Process, the fair market value approximates the carrying value as at December 31, 2019.

The risk management assets and liabilities at December 31, 2019 include commodity contracts. The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. The fair value of foreign exchange contracts is determined based on the difference between the contracted forward rate and current forward rates, using the remaining settlement amount.

7. DEBT

($000s)		**2019**		**2018**
Interim Financing	$	13,613	$	—
Credit Facilities		82,256		47,763
Current debt	$	95,869	$	47,763
Second Lien Notes		197,070		—
Third Lien Notes		71,090		—
Liabilities subject to potential compromise	$	268,160	$	—
Second Lien Notes		—		137,097
Senior Notes (extinguished pursuant to the Recapitalization Transaction)		—		196,000
Convertible Debentures (liability component) (extinguished pursuant to the Recapitalization Transaction)		—		41,732
Long-term debt	$	—	$	374,829
Total debt	**$**	**364,029**	**$**	**422,592**

The Company has been reviewing and evaluating potential options and alternatives to reduce the Company’s debt. As at December 31, 2019, the Company's debt consisted of the Interim Financing, Credit Facilities, Second Lien Notes and Third Lien Notes (defined below). The Company did not make an interest payment due on October 1, 2019 as required under the Second Lien Notes Indenture (defined below). On October 2, 2019 the Company obtained the Initial Order commencing CCAA proceedings and all obligations under these instruments became due and payable. Additionally, as at December 31, 2019, Bellatrix was in default of terms under the Credit Agreement, Second Lien Notes Indenture and Third Lien Notes Indenture (defined below); however, any efforts to enforce such payment obligations from the Company are stayed pursuant to the Initial Order granted in the CCAA proceedings on October 2, 2019 and the creditors' rights of enforcement in respect thereof are subject to the applicable provisions of the Initial Order. Refer to note 2c for further discussion regarding the CCAA proceedings.

Interim Financing

In connection with the CCAA proceedings and in order to provide required liquidity during the Strategic Process and the CCAA proceedings, the Company and certain holders of its Second Lien Notes (the "Interim Financing Lenders"), entered into an agreement (the “Interim Financing Agreement”) with respect to US$15 million of Interim Financing. Pursuant to the terms of the Interim Financing Agreement, the Interim Financing will bear interest at 10% per annum, compounded monthly. Amounts drawn under the Interim Financing are secured by a super priority charge on the Company’s assets, pursuant to the Initial Order. Bellatrix was obligated to pay an initial fee of US$250,000, with an additional US$250,000 payable 30 days and 60 days, respectively, after the initial funding, for total fees of US$750,000. Proceeds of advances under the Interim Financing may be used to provide for general corporate and working capital purposes, including funding of the CCAA proceedings and pursuit of the Strategic Process, in accordance with the terms of the Interim Financing Agreement. The Interim Financing matures on the earliest of i) implementation of a transaction pursuant to the Strategic Process, ii) implementation of a plan of compromise or arrangement under the CCAA proceedings and iii) March 31, 2020. The maturity date may be extended with the consent of the Interim Financing Lenders and the Monitor. Subsequent to year end, Bellatrix repaid US$7.5 million of principal and accrued interest on the Interim Financing and extended the maturity date of the Interim Financing to May 29, 2020.

In addition to customary affirmative covenant obligations, the Interim Financing provides for certain information delivery requirements including a bi-weekly variance analysis of actual receipts and disbursements against the budget most recently approved by the Interim Financing Lenders. Additionally, the Interim Financing Agreement requires that there will be no negative variance in the Company's actual expenditures from that set out in the most recently approved budget, in excess of 10% on a cumulative basis, excluding advisor fees and expenses as defined in the Interim Financing Agreement.

The Interim Financing Agreement also contains customary negative covenants restricting certain of the Company's activities, including restrictions on the ability to incur indebtedness, incur liens, consummate certain fundamental changes, make investments, dispose of assets, enter into sale and lease transactions, and make restricted payments. Furthermore, the Interim Financing Agreement contains customary events of default, in addition to the negative budget variance discussed above, as well as certain other CCAA proceeding related events. In the event of default, the interest rate will increase by an additional 2% per annum until amounts owing under the Interim Financing are repaid in full.

As at December 31, 2019, Bellatrix was in compliance with the affirmative covenant obligations, information delivery requirements and negative covenants required under the Interim Financing.

Credit Facilities

At December 31, 2019, the Company had $82.3 million outstanding under its syndicated revolving credit facilities (the "Credit Facilities") provided by three financial institutions. In connection with the completion of the Recapitalization Transaction (defined below) on June 4, 2019, Bellatrix extended the revolving period under the Credit Facilities by one year with the term-out period expiring one year after the end of the revolving period, pursuant to a second amended and restated credit agreement (the "Credit Agreement"). Under the terms of the Credit Agreement, the revolving period under the Credit Facilities was set to expire on May 30, 2020. Upon the commencement of the CCAA proceedings on October 2, 2019, the maturity date of the Credit Facilities was accelerated; however, any efforts to enforce such payment obligations are stayed pursuant to the Initial Order. With the acceleration of the maturity of the Credit Facilities, the Company has no further ability to borrow thereunder.

The Credit Facilities bear interest at a floating rate. For the year ended December 31, 2019 the weighted average interest rate for amounts borrowed under the Credit Facilities was 5.62%. With the commencement of the CCAA proceedings, the Credit Facilities were subject to an incremental 2% default interest rate. The Credit Facilities are secured by a debenture containing a first ranking charge and security interest over the assets of the Company, however, the Interim Financing was granted a super priority charge on the Company's assets, pursuant to the Initial Order. The Company has provided a negative pledge and undertaking to provide fixed charges over its properties in certain circumstances.

As at December 31, 2019, total outstanding letters of credit were $10.8 million.

Recapitalization Transaction

On June 4, 2019, the Company completed a recapitalization transaction (collectively, the "Recapitalization Transaction") described in the Company's management information circular dated April 18, 2019 and implemented pursuant to a court-approved plan of arrangement under the *Canada Business Corporations Act*. The Recapitalization Transaction involved:

- an exchange of all of the Company's outstanding Senior Notes plus all accrued and unpaid interest thereon for a combination of US$50 million of new Second Lien Notes due September 2023 (the "New Second Lien Notes"), US$54.8 million of third lien notes due December 2023 (the "Third Lien Notes") and approximately 51% of the common shares of Bellatrix outstanding immediately following the implementation of the Recapitalization Transaction;
- an exchange of all of the Company's outstanding Convertible Debentures plus all accrued and unpaid interest thereon for approximately 32.5% of the common shares of Bellatrix outstanding immediately following the implementation of the Recapitalization Transaction; and
- the Company's common shareholders prior to the implementation of the Recapitalization Transaction retained their common shares, subject to a 12 for one common share consolidation (the "Consolidation"), such that such common shareholders owned approximately 16.5% of the common shares of Bellatrix outstanding upon implementation of the Recapitalization Transaction.

Immediately prior to the implementation of the Recapitalization Transaction, Bellatrix continued from the *Business Corporations Act* (Alberta) to the *Canada Business Corporations Act*.

A total of $16.9 million of transaction costs were incurred in the year ended December 31, 2019 in relation to the Recapitalization Transaction. After deducting these transaction costs, Bellatrix recorded a gain of $24.9 million on the settlement of the Senior Notes and Convertible Debentures for the year ended December 31, 2019.

Second Lien Notes

As at December 31, 2019, an aggregate of US$152.1 million of Second Lien Notes were outstanding. In connection with the completion of the Recapitalization Transaction on June 4, 2019, US$50 million of New Second Lien Notes due September 2023 were issued by Bellatrix. The Second Lien Notes bear interest at 8.5% per annum, payable quarterly, and are secured by a demand debenture over all of the Company's assets, which is subordinated to the security provided under the Credit Facilities and the Interim Financing, which was granted a super priority charge on the Company's assets pursuant to the Initial Order (refer to note 2c).

The Company did not make an interest payment due on October 1, 2019 as required under the Second Lien Notes Indenture. Additionally, with the commencement of the CCAA proceedings on October 2, 2019, the full balance of the Second Lien Notes became due and payable; however, any efforts to enforce such payment obligations are stayed pursuant to the Initial Order.

During 2018, Bellatrix completed a debt refinancing transaction (the "Second Lien Refinancing") pursuant to a note purchase agreement ("Note Purchase Agreement") with certain holders of the Senior Notes (the “Exchanging Noteholders”) to exchange US$80.1 million of the Company’s Senior Notes for US$72.1 million of second lien notes due 2023 (the “Initial Second Lien Notes”).

In addition, the Exchanging Noteholders agreed to subscribe for between US$30 million and US$40 million of additional Second Lien Notes, with the proceeds to be used for capital expenditures, development capital and purchase of Senior Notes. During 2018 Bellatrix issued US$30 million of additional Second Lien Notes to the Exchanging Noteholders (collectively with the Initial Second Lien Notes and the New Second Lien Notes, the "Second Lien Notes").

As part of the implementation of the Recapitalization Transaction, the Note Purchase Agreement was converted into a note indenture governing all of the Second Lien Notes (the "Second Lien Notes Indenture").

Pursuant to the Note Purchase Agreement, in 2018 Bellatrix issued warrants to purchase an aggregate of 3,088,205 pre-Consolidation common shares of Bellatrix to the Exchanging Noteholders at a pre-Consolidation exercise price of $1.30 per common share expiring five years from the issuance date of the warrants. In connection with the implementation of the Recapitalization Transaction, the Company amended the exercise price of these warrants to reflect an exercise price of $3.03 per common share (post-Consolidation) and issued additional warrants to the Exchanging Noteholders which, together with those warrants originally held by the Exchanging Noteholders, are exercisable for an aggregate of 2,043,162 post-Consolidation common shares of Bellatrix.

Second Lien Notes *($000s)*		**Liability Component**		**Warrants**
Balance, December 31, 2017	$	—	$	—
Issuance of Second Lien Notes in exchange for Senior Notes [2]		92,451		1,652
Issuance of additional Second Lien Notes for cash proceeds		39,815		—
Unrealized foreign exchange loss [1]		4,719		—
Amortization of discount		112		—
Balance, December 31, 2018	$	137,097	$	1,652
Issuance of Second Lien Notes in exchange for Senior Notes pursuant to the Recapitalization Transaction		67,037		—
Unrealized foreign exchange gain [1]		(9,148)		—
Amortization of discount		2,084		—
Balance, December 31, 2019	**$**	**197,070**	**$**	**1,652**

(1) Exchange rate (CDN$/US$1.00) at December 31, 2019 was 1.2965 (December 31, 2018: 1.3646).

(2) Warrants component of Second Lien Notes is presented net of tax.

Third Lien Notes

On June 4, 2019, pursuant to the completed Recapitalization Transaction, US$54.8 million of Third Lien Notes due December 2023 were issued by Bellatrix. The indenture governing the Third Lien Notes (the "Third Lien Notes Indenture") provided for a special repayment of principal in the amount of US$4.9 million on December 2, 2019. With the commencement of the CCAA proceedings on October 2, 2019, the full balance of the Third Lien Notes is due and payable. Any efforts to enforce such payment obligations are stayed pursuant to the Initial Order (refer to note 2c).

The Third Lien Notes bear interest at 9.50% per annum, payable semi-annually, provided that until December 31, 2021, the Company has the option pursuant to the terms of the Third Lien Notes Indenture to elect to pay an interest rate of 12.50% per annum (the "PIK Interest Rate"), of which 9.50% would be deferred until maturity (the "PIK Interest") and 3.00% would be paid in cash. Pursuant to the terms of the Second Lien Notes Indenture, until June 30, 2021, the Company may not pay cash interest in excess of 4.75% per annum in respect of the Third Lien Notes and therefore, the Company must pay interest on the Third Lien Notes at the PIK Interest Rate. However, with the commencement of the CCAA proceedings, the Third Lien Notes were subject to an incremental 2% default interest rate. The Third Lien Notes are secured by a debenture over all of the Company’s assets, which is subordinated to the security provided under the Credit Facilities and Second Lien Notes, and the Interim Financing, which was granted a super priority charge on the Company's assets pursuant to the Initial Order.

Third Lien Notes *($000s)*		**Amount**
Balance, December 31, 2018	$	—
Issuance of Third Lien Notes in exchange for Senior Notes pursuant to the Recapitalization Transaction		73,586
Unrealized foreign exchange gain [1]		(2,496)
Balance, December 31, 2019	**$**	**71,090**

(1) Exchange rate (CDN$/US$1.00) at December 31, 2019 was 1.2965.

Senior Notes

At December 31, 2019, the Company no longer had any outstanding 8.5% senior unsecured notes (the "Senior Notes"), all of which, in the outstanding principal amount of approximately US$145.8 million, together with $9.2 million of accrued and unpaid interest thereon, were exchanged pursuant to the Recapitalization Transaction effective June 4, 2019 for US$50 million of New Second Lien Notes, US$54.8 million of Third Lien Notes and 20,840,070 new post-Consolidation common shares of Bellatrix.

The Senior Notes were carried at amortized cost, net of debt issuance costs of $1.1 million, which was extinguished as part of the Recapitalization Transaction.

Senior Notes *($000s)*		**Amount**
Balance, December 31, 2017	$	305,409
Unrealized foreign exchange loss		22,032
Amortization of discount and debt issue costs		2,617
Settlement of Senior Notes for equity		(30,673)
Settlement of Senior Notes for Second Lien Notes		(103,385)
Balance, December 31, 2018	$	196,000
Unrealized foreign exchange gain		(3,234)
Amortization of discount and debt issue costs		846
Realized foreign exchange on settlement of Senior Notes		(17,536)
Settlement of Senior Notes pursuant to the Recapitalization Transaction		(176,076)
Balance, December 31, 2019	**$**	**—**

Convertible Debentures

At December 31, 2019, the Company no longer had any 6.75% convertible unsecured subordinated debentures due in 2021 (the "Convertible Debentures") outstanding, all of which, in the aggregate principal amount of $50 million, together with $2.3 million of accrued and unpaid interest thereon, were exchanged pursuant to the Recapitalization Transaction effective June 4, 2019 for 13,280,553 new post-Consolidation common shares of Bellatrix.

Convertible Debentures *($000s)*		**Liability Component**		**Equity Component**
Balance, December 31, 2017	$	39,426	$	7,818
Effective interest on Convertible Debentures		2,306		—
Balance, December 31, 2018	$	41,732	$	7,818
Effective interest on Convertible Debentures		1,052		—
Settlement of Convertible Debentures		(42,784)		(7,818)
Balance, December 31, 2019	**$**	**—**	**$**	**—**

8. EXPLORATION AND EVALUATION ASSETS

Cost *($000s)*		
Balance, December 31, 2017	$	22,731
Additions		577
Dispositions		—
Transfer to oil and natural gas properties		(5,601)
Balance, December 31, 2018	$	17,707
Additions		106
Transfer to oil and natural gas properties		(873)
Balance, December 31, 2019	**$**	**16,940**

Exploration and evaluation assets consist of Bellatrix's exploration projects which are pending the determination of proved or probable reserves and production.

As at September 30, 2019, impairment indicators were identified for E&E assets, primarily as a result the continued decrease in current and forward commodity pricing for natural gas as well as the financial condition of Bellatrix and the resulting impact on the capital program. No impairment was recognized on E&E assets as the recoverable amount of the assets exceeded their carrying value. The estimated recoverable amount was based on a fair value less costs of disposal calculation determined primarily on recent and relevant land sales. As at December 31, 2019, Bellatrix performed an assessment of possible indicators of impairment on E&E assets, however, no additional impairment indicators outside of the circumstances identified at September 30, 2019 were identified.

9. PROPERTY, PLANT AND EQUIPMENT

($000s)		**Oil and Natural Gas Properties**		**Operated Facilities**		**Office Furniture and Equipment**		**Total**
Cost								
Balance, December 31, 2017	$	1,848,673	$	68,118	$	28,308	$	1,945,099
Additions		77,837		3,102		1,311		82,250
Transfer from exploration and evaluation assets		5,601		—		—		5,601
Disposals		(7,736)		—		—		(7,736)
Balance, December 31, 2018	$	1,924,375	$	71,220	$	29,619	$	2,025,214
Transfers to right-of-use assets		(15,300)		—		—		(15,300)
Additions		27,580		518		566		28,664
Transfer from exploration and evaluation assets		873		—		—		873
Disposals		—		—		—		—
Balance, December 31, 2019	**$**	**1,937,528**	**$**	**71,738**	**$**	**30,185**	**$**	**2,039,451**
Accumulated depletion, depreciation and impairment losses								
Balance, December 31, 2017	$	739,544	$	3,109	$	15,056	$	757,709
Charge for the year		100,840		1,854		2,592		105,286
Disposals		(4,343)		—		—		(4,343)
Impairment (reversal)		2,140		—		—		2,140
Balance, December 31, 2018	$	838,181	$	4,963	$	17,648	$	860,792
Transfers to right-of-use assets		(4,985)		—		—		(4,985)
Charge for the year		78,505		2,057		2,494		83,056
Impairment		576,063		—		5,643		581,706
Balance, December 31, 2019	**$**	**1,487,764**	**$**	**7,020**	**$**	**25,785**	**$**	**1,520,569**
Carrying amounts								
Balance, December 31, 2018	$	1,086,194	$	66,257	$	11,971	$	1,164,422
Balance, December 31, 2019	**$**	**449,764**	**$**	**64,718**	**$**	**4,400**	**$**	**518,882**

Bellatrix has included $1,001 million (2018: $863 million) for future development costs and excluded $39.3 million (2018: $41.4 million) for estimated salvage from the depletion and depreciation calculation for the three months ended December 31, 2019.

For the year ended December 31, 2019, the Company capitalized $4.9 million (2018: $7.0 million) of general and administrative expenses and $0.1 million (2018: $0.1 million) of share-based compensation costs directly related to exploration and development activities.

Acquisitions

In December 2019, Bellatrix completed an acquisition of assets from a joint venture partner within its core Ferrier area of west central Alberta. The acquisition was funded through $2.7 million of working capital adjustments and the transaction was approved by the Monitor and Interim Financing Lenders.

During 2018, Bellatrix completed two separate acquisitions of assets within its core Ferrier area of west central Alberta. The acquisitions were funded through a combination of the issuance of 10.75 million common shares of Bellatrix, $9.4 million in cash and $9.1 million in purchase price adjustments.

Dispositions

Bellatrix recognized a deferred financing obligation and a deferred gain pursuant to the sale of a 35% working interest in the Alder Flats Plant in 2016. The Phase 2 expansion project of the Alder Flats Plant was fully commissioned and began selling volumes mid-March 2018. During the year ended December 31, 2018 Bellatrix recognized a gain of $14.0 million related to the realized deferred gain and unspent portion of the deferred financing obligation.

Impairment Loss

At September 30, 2019, as a result of the continued decrease in current and forward commodity pricing for natural gas as well as the financial condition of Bellatrix and the resulting impact on the capital program, Bellatrix determined that there were impairment indicators present for its Central Alberta CGU, and therefore, completed an impairment test for this CGU. As at December 31, 2019, Bellatrix performed an assessment of possible indicators of impairment or impairment reversal on all of the Company’s CGUs, however, no additional impairment indicators outside of the circumstances identified at September 30, 2019 were identified. Consequently, there were no additional impairment tests was performed at December 31, 2019.

For the impairment test completed as at September 30, 2019, the recoverable amount of the Central Alberta CGU was determined using a FVLCS approach. The net present value of the before-tax cash flows from proved and probable developed producing oil and gas reserves, as determined by Bellatrix’s independent reserve evaluator at December 31, 2018 and updated internally for 2019 drilling, year to date production and forward price estimates as of September 30, 2019, were calculated based on before-tax discount rates ranging from 10% to 15% related to proved and probable developed producing oil and gas reserves.

For the year ended December 31, 2019, an impairment loss of $630 million was recognized in the Company's Central Alberta CGU, of which $582 million was allocated to PP&E and $48 million was allocated to ROU assets. The estimated recoverable amount after decommissioning liabilities of the Central Alberta CGU as at September 30, 2019 was $526 million. The carrying value of the Company's corporate and ROU assets were allocated to the Central Alberta CGU carrying value used in the impairment calculation.

The FVLCS of the Central Alberta CGU was based on the following forward commodity price estimates:

Year	Edmonton Crude Ref Oil ($/bbl) [1]	AECO Natural Gas ($/MMBtu) [1]	Butane ($/bbl) [1]	Propane ($/bbl) [1]	Condensate ($/bbl) [1]	CDN$/US$ Exchange Rates [1]
2019	69.50	1.87	26.06	17.72	72.28	1.32
2020	73.21	1.90	34.41	21.96	76.13	1.28
2021	76.65	2.23	41.39	25.29	79.71	1.27
2022	79.00	2.51	48.98	31.60	82.16	1.25
2023	81.25	2.65	52.00	34.13	85.31	1.25
2024	82.73	2.79	52.94	34.74	87.69	1.25
2025	84.78	2.84	54.26	35.61	89.86	1.25
2026	86.51	2.90	55.37	36.33	91.70	1.25
2027	88.24	2.96	56.47	37.06	93.53	1.25
2028	90.00	3.01	57.60	37.80	95.40	1.25
Thereafter	+2% per year	+2% per year	+2% per year	+2% per year	+2% per year	—

(1) The InSite price forecasts, effective October 1, 2019.

A 1% increase to the discount rates applied in the impairment calculation for the Central Alberta CGU would result in an increase in impairment loss of approximately $20 million for the year ended December 31, 2019, whereas a 1% decrease to the discount rates applied would result in a corresponding decrease to the impairment loss recognized.

Bellatrix performed an assessment of possible indicators of impairment or impairment reversal on all of the Company's CGUs at December 31, 2018. At December 31, 2018, impairment indicators were identified for the Company's Central Alberta CGU, North Alberta CGU and South Alberta CGU, primarily as a result of sustained low natural gas prices.

The recoverable amount of the Central Alberta, North Alberta and South Alberta CGUs as at December 31, 2018 was determined using a VIU approach. VIU was calculated as the net present value of the before-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by Bellatrix's independent reserve evaluator as at December 31, 2018, adjusted for the net present value of the before-tax abandonment and reclamation costs on proved plus probable undeveloped oil and gas reserves.

No impairment was recognized in the Company's Central Alberta CGU as the estimated recoverable amount of the CGU exceeded its carrying value for the year ended December 31, 2018. The VIU of the Central Alberta CGU was based on before-tax discount rates ranging from 12% to 15% related to a range of reserve categories.

For the year ended December 31, 2018, a non-cash impairment loss of $0.8 million was recognized in the Company's North Alberta CGU. The estimated recoverable amount after decommissioning liabilities of the North Alberta CGU as at December 31, 2018 was negative $5.2 million. A non-cash impairment loss of $1.3 million was recognized in the Company's South Alberta CGU. The estimated recoverable amount after decommissioning liabilities of the South Alberta CGU was negative $18.9 million for the year ended December 31, 2018. The VIU of the North Alberta and South Alberta CGU was based on before-tax discount rates ranging from 15% to 20%.

The VIU of each CGU was based on the following forward commodity price estimates:

Year	Edmonton Crude Ref Oil ($/bbl) [1]	AECO Gas ($/MMBtu) [1]	Butane ($/bbl) [1]	Propane ($/bbl) [1]	Condensate ($/bbl) [1]	CDN$/US$ Exchange Rates [1]
2018	63.50	1.90	20.96	28.58	67.95	1.32
2019	75.55	2.29	37.02	33.24	78.95	1.28
2020	80.50	2.71	45.89	37.03	83.72	1.25
2021	83.25	3.03	54.95	38.30	86.58	1.25
2022	85.60	3.21	58.21	41.52	88.60	1.25
2023	87.62	3.33	61.33	42.93	90.68	1.25
2024	90.01	3.44	62.10	44.10	93.16	1.25
2025	92.68	3.50	63.95	45.41	95.92	1.25
2026	94.53	3.57	65.22	46.32	97.84	1.25
2027	96.42	3.65	66.53	47.25	99.79	1.25
Thereafter	+2% per year	+2% per year	+2% per year	+2% per year	+2% per year	—

(1) The InSite price forecasts, effective January 1, 2019.

A 1% increase to the discount rates applied in the impairment calculation for the North Alberta CGU and South Alberta CGU would result in an increase in impairment loss of approximately $0.2 million and nil, respectively, for the year ended December 31, 2018, whereas a 1% decrease to the discount rates applied would result in a corresponding decrease to the impairment loss recognized.

10. RIGHT-OF-USE ASSETS

The following table details the cost, accumulated depreciation and impairment of Bellatrix's ROU assets, as at December 31, 2019 :

($000s)	Office	Equipment	Vehicles	Total
Cost				
Balance, January 1, 2019	$ 6,161	$ 91,575	$ 803	$ 98,539
Additions	3,107	—	480	3,587
Disposals	—	(10,366)	(120)	(10,486)
Balance, December 31, 2019	**$ 9,268**	**$ 81,209**	**$ 1,163**	**$ 91,640**
Accumulated Depletion and Depreciation				
Balance, January 1, 2019	$ —	$ —	$ —	$ —
Charge for time period	955	13,862	481	15,298
Disposals	—	(6,536)	(120)	(6,656)
Impairment	4,689	43,605	—	48,294
Balance, December 31, 2019	**$ 5,644**	**$ 50,931**	**$ 361**	**$ 56,936**
Carrying Amounts				
At January 1, 2019	$ 6,161	$ 91,575	$ 803	$ 98,539
Balance, December 31, 2019	**$ 3,624**	**$ 30,278**	**$ 802**	**$ 34,704**

During the year ended December 31, 2019, the Company renegotiated its head office lease which has resulted in an addition of $3.1 million to the ROU asset due to the re-measurement of the corresponding lease obligation. During the year ended December 31, 2019, Bellatrix performed an impairment test on its Central Alberta CGU which incorporated the above office, equipment and vehicle ROU assets. Please refer to note 9 for further discussion regarding impairment. Subsequent to the commencement of CCAA proceedings, the Company disclaimed certain equipment leases resulting in the disposal of $3.0 million carrying value of ROU assets.

11. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2019, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities to be approximately $84.9 million (2018: $98.5 million) which will be incurred between 2020 and 2069. A risk-free rate between 1.61% and 1.67% (2018: 1.91% and 2.15%) and an inflation rate of 1.4% (2018: 2.0%) were used to calculate the fair value of the decommissioning liabilities as at December 31, 2019.

($000s)	2019	2018
Balance, beginning of year	$ 63,874	$ 60,611
Incurred on development activities	412	678
Acquired through asset acquisitions	1,127	3,462
Revisions on estimates	(3,921)	37
Decommissioning costs incurred	(1,641)	(2,242)
Accretion expense	1,129	1,328
Balance, end of year	**$ 60,980**	**$ 63,874**

12. LEASE OBLIGATIONS AND OTHER

($000s)		Lease obligation		Finance lease obligation		Deferred lease inducements		Onerous contracts & other obligations		Total
Balance, December 31, 2018	$	—	$	5,721	$	1,689	$	5,362	$	12,772
Adjustments for the adoption of IFRS 16		100,913		(5,721)		(1,689)		(5,362)		88,141
Additions		480		—		—		—		480
Other deferred obligations		(866)		—		—		549		(317)
Payments on lease obligations		(15,924)		—		—		(230)		(16,154)
Lease modification		3,107		—		—		—		3,107
Dispositions		(6,538)		—		—		(319)		(6,857)
Balance, December 31, 2019	**$**	**81,172**	**$**	**—**	**$**	**—**	**$**	**—**	**$**	**81,172**
Current portion of lease obligations & other	$	12,475	$	—	$	—	$	—	$	12,475
Long term portion of lease obligations & other	$	68,697	$	—	$	—	$	—	$	68,697

The total cash outflow for leases for the year ended December 31, 2019 were $23.0 million. Other expenses in the Statement of Comprehensive Income (Loss) includes a provision of $0.5 million for other obligations for the year ended December 31, 2019, respectively. During the year ended December 31, 2019, the Company renegotiated its head office lease which has resulted in an additional $3.1 million liability due to the re-measurement of the lease obligation. Subsequent to the commencement of CCAA proceedings, the Company disclaimed certain equipment leases resulting in the disposal of $6.5 million of lease obligations.

13. SHAREHOLDERS' CAPITAL

Effective June 4, 2019, the Company consolidated its common shares on the basis of 12 old common shares outstanding for every 1 new common share. All figures in the financial statements have been adjusted to reflect the 12 for 1 consolidation. The number of outstanding share options, deferred share units ("DSUs"), restricted awards ("RAs") and performance awards ("PAs") have also been adjusted proportionately. The corresponding exercise prices have increased by the same ratio.

Under the Recapitalization Transaction, as discussed in note 7, on June 4, 2019 the Company issued 34,120,623 post-Consolidation common shares.

Bellatrix is authorized to issue an unlimited number of common shares and 95,978,621 preferred shares. At December 31, 2019, no preferred shares have been issued. All shares issued are fully paid and have no par value. The common shareholders are entitled to dividends as may be declared by the Board of Directors from time to time; no dividends were declared by the Board of Directors during the years ended December 31, 2019 or 2018.

Trading of the Company's common shares on the TSX was halted on October 2, 2019 (refer to note 2c) and on November 8, 2019, the Company's common shares were delisted on the TSX due to failure to meet the TSX's continued listing requirements.

	2019			2018		
	Number		Amount *($000s)*	Number		Amount *($000s)*
Common shares, opening balance	6,742,244	$	1,112,619	4,114,836	$	1,068,377
Shares issued on settlement of Senior Notes (note 7)	20,840,070		40,013	1,658,144		31,306
Shares issued on settlement of Convertible Debenture	13,280,553		25,499	—		—
Shares issued on settlement of share-based compensation	—		—	7,293		127
Shares issued on property acquisition, net of tax effect (note 9)	—		—	895,833		12,053
Flow through shares issued	—		—	66,138		1,143
Share issue costs on equity issue, net of tax effect	—		(155)	—		(387)
Balance, end of year	**40,862,867**	**$**	**1,177,976**	**6,742,244**	**$**	**1,112,619**

14. REVENUE

Bellatrix sells its production pursuant to fixed and 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. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, natural gas, condensate and NGLs to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price.

The majority of crude oil and natural gas is sold under contracts of varying terms of up to one year. Revenues are typically collected on the 25th day of the month following production. Processing fees charged to third parties are generally earned under multi-year contracts at fixed fees that vary by volume.

The following table provides a summary of the Company's revenue disaggregated by revenue source:

($000s)		**2019**		**2018**
Crude oil and condensate	$	42,992	$	51,761
NGLs (excluding condensate)		39,609		70,970
Crude oil, condensate and NGLs	$	82,601	$	122,731
Natural gas		104,827		100,405
Petroleum and natural gas sales	$	187,428	$	223,136
Other income [1]		7,704		5,576
Total revenue	**$**	**195,132**	**$**	**228,712**

(1) Other income primarily consists of processing and other third party income.

At December 31, 2019, receivables from contracts with customers, which are included in accounts receivable, were $19.5 million (December 31, 2018: $20.9 million).

15. SHARE-BASED COMPENSATION PLANS

The following tables provide a summary of the Company's share-based compensation expense (recovery) for the years ended December 31, 2019 and December 31, 2018:

($000s)		**2019**		**2018**
Share options expense [1]	$	94	$	334
DSUs expense (recovery)		(474)		(669)
RAs expense (recovery)		(207)		(80)
PAs expense (recovery)		(136)		(88)
Share-based compensation expense (recovery)	$	(723)	$	(503)
Share-based compensation expense included in operating expense		12		110
Total share-based compensation expense (recovery)	**$**	**(711)**	**$**	**(393)**

(1) Share option expense for the year ended December 31, 2019 is net of $11 thousand of share option expense capitalized (December 31, 2018: $73 thousand)

The following table provides a summary of the Company's share-based compensation liability balances within accounts payable and accrued liabilities:

($000s)		**Deferred Share Units**		**Restricted Awards**		**Performance Awards**		**Total**
Liability balance, December 31, 2019	**$**	**—**	**$**	**—**	**$**	**—**	**$**	**—**
Liability balance, December 31, 2018	$	543	$	321	$	212	$	1,076

a. Share Option Plan

Bellatrix has a share option plan whereby the Company may grant share options to its officers, employees, consultants and other service providers. Under this plan, the exercise price of each share option is not less than the volume weighted average trading price of the Company's share price for the five trading days immediately preceding the date of grant. The maximum term of an option grant is five years. Option grants are non-transferable or assignable except in accordance with the share option plan and the holding of share options shall not entitle a holder to any rights as a shareholder of Bellatrix. Share options, entitling the holder to purchase common shares of the Company, have been granted to officers, employees, consultants and other service providers of Bellatrix. One third of the initial grant of share options normally vests on each of the first, second and third anniversary from the date of grant.

The fair values of all share options granted are estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair market value of share options granted during the years ended December 31, 2019 and 2018, and the weighted average assumptions used in their determination are as noted below:

	2019	2018
Inputs:		
Share price	$ 0.54	$ 1.48
Exercise price	$ 0.54	$ 1.48
Risk free interest rate (%)	1.3 %	2.0 %
Option life (years)	2.8	2.8
Option volatility (%)	69 %	65 %
Results:		
Weighted average fair value of each share option granted	$ 0.24	$ 0.64

Bellatrix calculates volatility based on historical share price. Bellatrix incorporates an estimated forfeiture rate between 3% and 10% (2018: 3% to 10%) for stock options that will not vest, and adjusts for actual forfeitures as they occur.

The following tables summarize information regarding Bellatrix's Share Option Plan:

Share Options Continuity	**Weighted Average Exercise Price**	**Number**
Balance, December 31, 2017	$ 187.44	135,164
Granted	$ 17.76	7,917
Forfeited	$ 263.88	(60,233)
Expired	$ 432.00	(3,483)
Balance, December 31, 2018	$ 101.82	79,365
Granted	$ 0.54	840,000
Forfeited	$ 27.90	(95,394)
Expired	$ 456.90	(2,161)
Balance, December 31, 2019	**$ 5.94**	**821,810**

Share options outstanding have exercise prices ranging from $0.54 to $225.00 per option, with a weighted average exercise of $5.94 at December 31, 2019. The weighted average remaining contractual life of the outstanding share options is 4.5 years. A total of 44,530 share options are exercisable at December 31, 2019, with a weighted average exercise price of $94.25.

b. Deferred Share Unit Plan

Under Bellatrix's DSU Plan, the Company may grant to non-employee directors, DSUs. Each DSU is a right to receive, on a deferred payment basis, a cash payment equivalent to the volume weighted average trading price of the Company's common shares for the five trading days immediately preceding the redemption date of such DSU. Participants of the DSU Plan may also elect to receive their annual remuneration in the form of DSUs. Subject to TSX and shareholder approval, Bellatrix may elect to deliver common shares from treasury in satisfaction, in whole or in part, of any payment to be made upon the redemption of the DSUs. The DSUs vest immediately and are redeemed when the participant ceases to hold all positions with Bellatrix.

DSU Continuity	**Number**
Balance, December 31, 2017	43,135
Granted	25,338
Exercised	—
Balance, December 31, 2018	68,473
Granted	421,878
Exercised	(53,564)
Balance, December 31, 2019	**436,787**

c. Award Plan

Bellatrix has an Award Plan where the Company may grant RAs and PAs to officers, employees and other service providers. Awards under the Award Plan may be settled in cash, in common shares of the Company, or a combination thereof. In the case of PAs, settlement is subject to a "payout multiplier" (the payout multiplier shall be based on such corporate performance measures as determined by the Board of Directors (or the Compensation Committee) of the Company) and may range between zero and two times.

RAs granted to employees vest in equal annual amounts over the course of three years. Each RA entitles its holder to receive a cash payment equal to the weighted average trading price of the Company's shares trading on the TSX for the five trading days preceding its vesting date. Unvested RAs are forfeited at the time the holder's employment with the Company ends, except on death in which case they vest immediately. Outstanding RAs are revalued at each financial reporting date to their fair market value at that time, determined by the weighted average trading price of the Company's shares on the TSX for the five trading days preceding period end.

RA Continuity	**Number**
Balance, December 31, 2017	68,608
Granted	73,350
Exercised	(26,487)
Forfeited	(16,904)
Balance, December 31, 2018	98,567
Granted	2,616,200
Exercised	(34,469)
Forfeited	(43,577)
Balance, December 31, 2019	**2,636,721**

PAs vest on the third anniversary date of their issuance. Each PA entitles its holder to receive a cash payment equal to the weighted average trading price of the Company's shares trading on the TSX for the five trading days preceding its vesting date, multiplied by a payout multiplier determined by the Company's Board of Directors based on determined corporate performance measures. Unvested PAs are forfeited at the time the holder's employment with the Company ends. Outstanding PAs are revalued at each financial reporting date to their fair market value at that time, determined by the weighted average trading price of the Company's shares on the TSX for the 5 trading days preceding period end.

PA Continuity	**Number**
Balance, December 31, 2017	47,729
Granted	27,983
Exercised	(6,489)
Forfeited	(5,659)
Balance, December 31, 2018	63,564
Granted	4,931,000
Exercised	(7,145)
Forfeited	(214,384)
Balance, December 31, 2019	**4,773,035**

16. INCOME TAXES

Bellatrix is a corporation as defined under the *Income Tax Act* (Canada) and is subject to Canadian federal and provincial taxes. Bellatrix is subject to provincial taxes in Alberta, British Columbia and Saskatchewan as the Company operates in those jurisdictions.

The provision for income taxes differs from the expected amount calculated by applying the combined 2019 federal and provincial corporate income tax rate of 26.5% (2018: 27.0%) to net profit (loss) before taxes. This difference results from the following items:

($000s)	**2019**	**2018**
Expected income tax expense (recovery)	$ (186,792)	$ (26,471)
Change in unrecognized deferred tax asset	155,534	69,805
Change in corporate tax rate	35,752	—
Non-taxable portion of unrealized foreign exchange (gain) loss	(7,169)	3,972
Non-taxable portion of foreign exchange loss on settlement of Senior Notes	2,043	—
Share based compensation expense	25	86
Flow through share issuance	—	309
Other	607	594
Deferred tax expense (recovery)	**$ —**	**$ 48,295**

The components of the net deferred tax asset at December 31, 2019 are as follows:

($000s)		2019	2018
Deferred tax liabilities:			
Risk management contract asset	$	—	$ (3,549)
Convertible Debentures		(101)	(2,122)
Second Lien Notes		(509)	—
Third Lien Notes		(287)	—
Deferred tax assets:			
Property, plant and equipment and exploration and evaluation assets	$	—	$ 5,280
Financing costs		678	—
Share issue costs		219	391
Deferred tax asset (liability)	**$**	**—**	**$ —**

On May 28, 2019, the Government of Alberta substantively enacted a reduction in the provincial corporate tax rate from 12% to 8% over four years. The tax rate decrease will be reduced to 11% effective July 1, 2019 and reduced by 1% on January 1 for each of the years 2020, 2021 and 2022. As at December 31, 2018, Bellatrix was in a net unrecognized deferred tax asset position due to uncertainty of Bellatrix's ability to realize the tax assets in future years (refer to note 2c). As at December 31, 2019, Bellatrix had approximately $1.40 billion in tax pools available for deduction against future income. Included in this tax basis are estimated non-capital loss carry forwards of approximately $122 million that expire in years 2027 through 2039.

There are unrecognized deferred tax assets (liabilities) of $263.0 (2018 - $117.4) related to the following tax attributes:

	2019		2018	
	Gross amount	**Tax effect**	**Gross Amount**	**Tax effect**
Property, plant and equipment and exploration and evaluation assets	$ 847,075	$ 194,827	$ 196,828	$ 53,143
Decommissioning liabilities	60,983	14,026	63,871	17,245
Risk management contract liability	11,772	2,708	2,569	694
Financing costs	7,575	2,539	559	151
Non-capital losses	144,693	29,797	156,127	38,672
Finance lease obligation	—	—	5,721	1,545
Lease obligations	79,816	18,358	5,362	1,448
Second Lien Notes	2,103	484	5,461	837
Senior Notes	—	—	23,477	3,334
Other	1,230	282	334	291
Total	**$ 1,155,247**	**$ 263,021**	**$ 460,309**	**$ 117,360**

17. FINANCE INCOME AND EXPENSES

($000s)		2019	2018
Interest on Interim Financing	$	1,232	$ —
Interest on Credit Facilities [1]		4,747	4,302
Interest on Second Lien Notes [2]		16,845	3,224
Interest on Third Lien Notes		5,705	—
Interest on Senior Notes (extinguished pursuant to the Recapitalization Transaction) [2]		7,917	26,219
Interest on Convertible Debentures (extinguished pursuant to the Recapitalization Transaction) [2]		2,449	5,681
Financing cost of lease obligation [3]		6,878	—
Accretion on decommissioning liabilities (non-cash)		1,129	1,328
Finance expense	**$**	**46,902**	**$ 40,754**

(1) Includes interest at a floating rate, for the year ended December 31, 2019. The weighted average interest rates for amounts borrowed under the Credit Facilities was 5.62%.
(2) Includes amortized costs related to the issuance of the Second Lien Notes, Senior Notes and Convertible Debentures (detailed in note 7).
(3) As of January 1, 2019, Bellatrix incurs financing costs related to IFRS 16 (as described in note 5).

18. FOREIGN EXCHANGE

Bellatrix incurs gains and losses in relation to the foreign currency translation of its Interim Financing, Second Lien Notes and Third Lien Notes, and prior to June 4, 2019, the Senior Notes. The Interim Financing, Second Lien Notes and Third Lien Notes are translated from United States dollars to Canadian dollars using the closing foreign exchange rate for the period. An unrealized foreign exchange gain or loss is included in earnings in the period related to the translation of the outstanding balance of the Second Lien Notes and Third Lien Notes at the end of the period and in the case of the Senior Notes, the outstanding balance prior to June 4, 2019. Realized foreign exchange gains and losses are recognized as Interim Financing, Second Lien Notes, Third Lien Notes and other minor foreign currency based transactions are translated and settled during the period. As a result of the extinguishment of the Senior Notes during the second quarter of 2019, a non-cash foreign exchange loss of $17.5 million was realized in the year ended December 31, 2019.

During the second quarter of 2018 Bellatrix terminated, at no cost, $62.5 million of United States dollar foreign exchange forward purchase contracts which had a maturity date in May 2020.

($000s)		**2019**		**2018**
Unrealized gain (loss) on foreign exchange	$	32,724	$	(18,617)
Unrealized gain (loss) on foreign exchange contracts		—		3,422
Total Unrealized gain (loss) on foreign exchange	$	32,724	$	(15,195)
Realized gain (loss) on foreign exchange		(17,359)		(8,296)
Gain (loss) on foreign exchange	**$**	**15,365**	**$**	**(23,491)**

19. PER SHARE AMOUNTS

The calculation of basic earnings per share for the year ended December 31, 2019 was based on a net loss of $704.9 million (2018: net loss of $146.3 million).

		2019		**2018**
Basic common shares outstanding		40,862,867		6,742,244
Fully dilutive effect of:				
Share options outstanding		821,810		79,378
Shares issuable on conversion of Convertible Debentures		—		514,403
Warrants outstanding		2,043,162		257,350
Fully diluted common shares outstanding		43,727,839		7,593,375
Weighted average shares outstanding		26,466,785		4,977,906
Dilutive effect of share options, Convertible Debentures and warrants [1]		—		—
Diluted weighted average shares outstanding		26,466,785		4,977,906
Net (loss) profit per share - basic	$	(26.63)	$	(29.40)
Net (loss) profit per share - diluted	$	(26.63)	$	(29.40)

(1) For the year ended December 31, 2019, a total of 821,810 (2018: 79,378) share options, nil (2018: 514,403) shares issuable on conversion of Convertible Debentures and 2,043,162 warrants (2018: 257,350) were excluded from the calculation as they were anti-dilutive.

Effective June 4, 2019, the Company completed a share consolidation on the basis of a consolidation ratio of 12 old common shares to 1 new common share, which has been applied retrospectively.

20. COMMITMENTS

The following is a summary of the Company's commitments as at December 31, 2019:

($000s)		**1 Year**		**2-3 Years**		**4-5 Years**		**More than 5 years**		**Total**
Transportation agreements [1]	$	11,231	$	11,762	$	22	$	—	$	23,015

(1) Transportation agreements is comprised of commitments to third parties to transport natural gas.

Under the CCAA proceedings, the Company has the ability to disclaim agreements to which the Company is a party, subject to the provisions of the CCAA. Prior to year end, Bellatrix has disclaimed certain firm processing agreements which were no longer required for the current level of production. The total impact of agreements disclaimed prior to year end was approximately $260 million. Subsequent to December 31, 2019, the Company further reduced its transportation agreements commitment by approximately $11 million through disclaiming surplus capacity under its firm transportation contracts.

Bellatrix and Keyera Partnership ("Keyera") had entered into a midstream services and governance agreement ("MSGA") pursuant to which Bellatrix would have exclusive access to the purchased capacity (approximately 80.5 MMcf/d) for a term of 10 years. In exchange for exclusive access to the purchased capacity during the term, Keyera was entitled to receive a guaranteed fee calculated with reference to the capital fees that Keyera would otherwise receive in accordance with the terms of the construction, ownership and operation agreement governing the Alder Flats Plant. Subsequent to December 31, 2019, the Company disclaimed the MSGA with Keyera.

Bellatrix is involved in litigation and claims arising in the normal course of operations and as result of the CCAA proceedings. Such claims are not expected to have a material impact on Bellatrix's results of operations or cash flows.

21. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management includes officers and directors (executive and non-executive) of the Company. The compensation paid or payable to key management for employee services is shown below:

($000s)		**2019**		**2018**
Short-term employee benefits	$	3,859	$	4,805
Share-based compensation [1]		(486)		(431)
Total key management compensation	**$**	**3,373**	**$**	**4,374**

(1) Share-based compensation includes share options, RAs, PAs and DSUs.

22. SUPPLEMENTAL DISCLOSURES

($000s)		**2019**		**2018**
Changes in non-cash working capital items:				
Accounts receivable	$	1,715	$	8,717
Loans receivable		—		—
Deposits and prepaid expenses		(380)		193
Accounts payable and accrued liabilities		3,072		(10,958)
Total	**$**	**4,407**	**$**	**(2,048)**
Changes related to:				
Operating activities	$	109	$	16,692
Financing activities		3,346		(6,371)
Investing activities		952		(12,369)
Total	**$**	**4,407**	**$**	**(2,048)**

Statement of Profit (Loss) and Comprehensive Income (Loss) Presentation

A mixed presentation of nature and function was used for the Company's presentation of operating expenses in the Statement of Profit (Loss) and Comprehensive Income (Loss) for the current and comparative years. General and administrative expenses are presented by their function. Other expenses, including production, transportation, depletion and gain (loss) on dispositions are presented by their nature. Such presentation is in accordance with industry practice.

Total employee compensation costs included in total production and general administrative expenses in the Statements of Profit (Loss) and Comprehensive Income (Loss) for the years ended December 31, 2019 and 2018 are detailed in the following table:

($000s)		**2019**		**2018**
Production	$	6,756	$	7,169
General and administrative [1]		11,556		13,399
Employee compensation	**$**	**18,312**	**$**	**20,568**

(1) Amount shown is net of capitalization.