ARTIS EXPLORATION LTD

2018 Annual Report

For the Three and Twelve months Ended

December 31, 2018

ARTIS EXPLORATION LTD.

2018 Fourth Quarter and Year-End Report
For the Three Months and Year Ended December 31, 2018

HIGHLIGHTS

	Three Months Ended December 31			Years Ended December 31		
	2018	2017	Change	**2018**	2017	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
Financial						
Petroleum and natural gas revenues	**16,501**	8,483	95	**57,493**	17,283	233
Funds flow from operations (1)	**9,725**	6,287	55	**39,970**	11,122	259
Per share – basic	**0.06**	0.06	-	**0.28**	0.13	115
– diluted	**0.05**	0.05	-	**0.25**	0.13	92
Net earnings	**1,225**	2,168	(43)	**14,818**	2,223	567
Per share – basic	**0.01**	0.02	(50)	**0.10**	0.03	233
– diluted	**0.01**	0.02	(50)	**0.10**	0.03	233
Net capital expenditures	**58,200**	63,997	(9)	**196,773**	135,647	45
Working capital (2)	**38,217**	18,412	108	**38,217**	18,412	108
Shareholders' equity	**389,649**	192,356	103	**389,649**	192,356	103
(000s)	*(#)*	*(#)*	*(%)*	*(#)*	*(#)*	*(%)*
Share Data						
At period-end						
Basic	**159,597**	123,018	30	**159,597**	123,018	30
Options	**11,523**	8,653	33	**11,523**	8,653	33
Warrants	**21,155**	16,925	25	**21,155**	16,925	25
Retention awards	**308**	308	-	**308**	308	-
Weighted average						
Basic	**159,597**	114,044	40	**144,465**	86,500	67
Diluted	**177,696**	116,971	52	**159,350**	87,456	82
			(%)			*(%)*
Operating						
Production						
Crude oil *(bbls/d)*	**4,284**	1,337		**2,478**	740	
Natural gas *(mcf/d)*	**2,263**	488		**1,320**	234	
NGLs *(bbls/d)*	**109**	11		**63**	6	
Total *(boe/d)*	**4,771**	1,429	234	**2,761**	785	252
Liquids %	**92**	94		**92**	95	
Average wellhead prices						
Crude oil *($/bbl)*	**40.02**	67.86	(41)	**61.61**	63.05	(2)
Natural gas *($/mcf)*	**1.83**	1.99	(8)	**1.79**	1.98	(10)
NGLs *($/bbl)*	**34.24**	47.48	(28)	**39.24**	40.63	(3)
Total *($/boe)*	**37.59**	64.53	(42)	**57.05**	60.34	(5)
Royalties *($/boe)*	**(2.64)**	(3.70)	(29)	**(3.87)**	(3.46)	12
Operating cost *($/boe)*	**(7.04)**	(5.34)	32	**(7.61)**	(6.88)	11
Transportation cost *($/boe)*	**(5.48)**	(4.24)	29	**(5.04)**	(4.21)	20
Operating netback *($/boe)* (3)	**22.44**	51.25	(56)	**40.52**	45.78	(11)

	Three Months Ended December 31			Years Ended December 31		
	2018	2017	Change	**2018**	2017	Change
			(%)			*(%)*
Reserves [4]						
Total Proved *(mboe)*				**39,707**	17,913	122
Proved plus probable *(mboe)*				**144,795**	84,221	72
Total net present value – proved plus probable [5] (10% discount) *($000s)*				**2,614,544**	1,440,384	82
Total net present value – proved [5] (10% discount) *($000s)*				**834,543**	355,804	135
Undeveloped land						
Gross *(acres)*				**232,713**	238,569	(2)
Net *(acres)*				**231,327**	237,149	(2)
Drilling activity – gross (net)						
Crude oil *(#)*	**6 (5.5)**	3 (3.0)		**23 (21.5)**	10 (9.0)	
Natural gas *(#)*	**-**	-		**-**	-	
Total *(#)*	**6 (5.5)**	3 (3.0)		**23 (21.5)**	10 (9.0)	
Average working interest *(%)*	**92**	100		**93**	90	

(1) Funds flow from operations is calculated using net cash from operating activities, as presented in the statement of cash flows, before changes in non-cash working capital and settlement of decommissioning costs. Funds flow from operations is used to analyze the Company's operating performance and leverage. Funds flow from operations does not have a standardized measure prescribed by International Financial Reporting Standards ("IFRS"), and therefore, may not be comparable with the calculations of similar measures for other companies.

(2) Current assets less current liabilities.

(3) Operating netback equals petroleum and natural gas revenues including realized hedging gains or losses on financial derivative contracts less royalties, transportation and operating costs calculated on a per boe basis. Operating netback does not have a standardized meaning prescribed by IFRS, and therefore, may not be comparable with the calculations of similar measures for other companies.

(4) Based on the independent reserves evaluation prepared by GLJ Petroleum Consultants ("GLJ") effective December 31, 2018. See "Reserves Data" below for details.

(5) Before income taxes and based on GLJ's future price forecast as at January 1, 2019. It should not be assumed that the future net revenues estimated by GLJ represent the fair market value of the reserves.

Artis Exploration Ltd. is pleased to report its financial and operating results for the three months and year ended December 31, 2018.

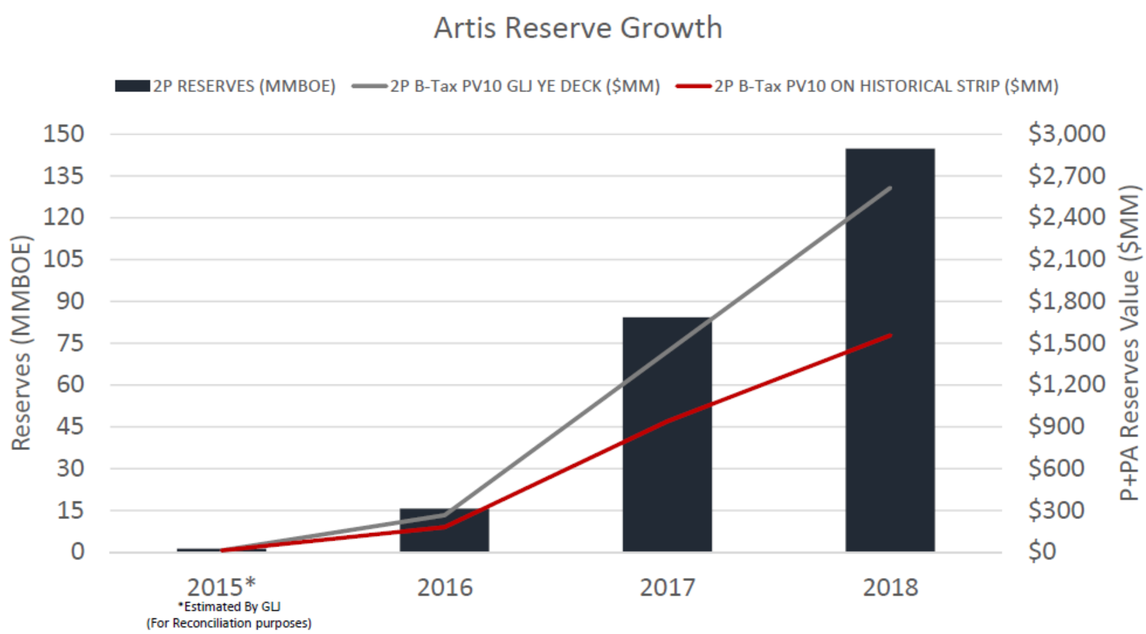
Financial and Operating Highlights

- Increased annual average production to 2,761 boe/d (92% liquids), a gain of 252% over 2017. Fourth quarter average production rose to a new three-month high of 4,771 boe/d (92% liquids) and was up 234% from the same period last year.
- Increased 2018 funds flow from operations by 259% to $40.0 million and 92% on a diluted per share basis to $0.25 per share compared to 2017.
- Increased 2018 net earnings by 567% to $14.8 million and 233% on a diluted per share basis to $0.10 per share compared to 2017.
- Increased proved plus probable reserves 72% to 144.8 mmboe, which included a 122% gain in proved reserves to 39.7 mmboe.
- Increased proved plus probable reserves value 82% to $2,614.5 million (before tax at 10% discount).
- Increased proved reserves value 135% to $834.5 million (before tax at 10% discount).
- Invested $196.8 million in capital expenditures in 2018 resulting in the drilling of 23 (21.5 net) wells in our core area of Trochu, Alberta.
- Recorded all-in finding and development costs ("F&D"), including future development costs ("FDC"), of $16.73/boe on proved plus probable reserves and $21.68/boe on proved reserves.
- Achieved a recycle ratio of 2.4 times based on proved plus probable F&D of $16.73/boe and Artis' 2018 operating netback of $40.52/boe.

President's Message

As foreshadowed in our prior year's message to shareholders, 2018 was another year of successful growth execution and delineation of our East Shale Basin Duvernay project fueled by an industry leading capital raise in May 2018. Artis took its Duvernay project on the road in a marketed equity offering and successfully raised approximately $183 million via the issuance of approximately 36.6 million shares predominantly to the U.S. private equity firm Warburg Pincus. We are very pleased to have them as a partner and as a part of our Board and team. Artis has successfully raised over $365 million in equity financings since its inception in 2015 when crude oil pricing was below US $30/bbl WTI.

In 2018, Artis invested $196.8 million, drilling 23 horizontal oil wells, adding to our already substantial land holdings and building out infrastructure including two 4,000 bopd capacity oil batteries. Production increased 252% on average year over year with the Company exiting at over 5,500 boe/d (92% light oil). Our landholdings in the Duvernay increased to over 258,000 net acres or 400 sections with another 34,000 net acres or 54 sections under option for total land access of over 460 net sections. The Company estimates its inventory of future drill locations at over 1,500 potential locations supported by a Proved plus Probable ("2P") reserves inventory of 144.8 million boe. This is up 72% compared to 84.2 million boe for the prior year resulting in a year end 2P Before Tax PV10% Reserves value of approximately $2.6 billion using our independent third-party evaluator's pricing assumptions at January 1, 2019. Our tremendous reserve's growth was realized at a finding and development cost (including future development capital) of $16.73/boe which generated a 2.4 times recycle ratio based on a 2P reserves basis and a 2018 operating netback of $40.52/boe. These efficiencies rank amongst the top companies in industry for oil reserve additions.



2018 will go down as one of the most volatile pricing periods for crude oil due to significant swings in Benchmark WTI oil prices but more significantly due to the widening of the oil price differential for Canadian crudes due largely to export pipeline capacity constraints and the resulting oil sales apportionment process. During the year, the Company's Duvernay light oil realized prices as high as $80/bbl CDN to as low as $18/bbl CDN. As was documented in the media, the issue became so significant that the Alberta government instituted province wide production curtailments to stabilize oil differentials and therefore realized oil prices. Although curtailments have provided some stability in the market, Canadian producers have exposure to differential risk until pipeline capacity expansion occurs. At least 2 of the 3 pipeline proposals (Enbridge Line 3 expansion, the TMX pipeline that the federal government of Canada now owns, and the Keystone XL pipeline in the US) are needed to alleviate the problem long term and for Canadian and North American oil markets to become efficient and effective. Recognition of this by all levels of government both at the federal and provincial levels is anticipated as is the return to competitive Canadian oil prices. Despite these macroeconomic variables, Artis realized average annual operating netbacks on its sweet light oil of approximately $40/boe in 2018 which will rank amongst the best netbacks in North America for the year (note the Company's Q3/2018 netbacks of approximately $57/boe CDN were the highest reported corporate operating netbacks in Canada). The Company is fortunate to produce high quality, sweet light oil which is in demand globally and assisted, in part, by higher standard (low sulphur) marine fuel requirements being implemented in 2020.

During 2018 Artis continued to deliver top quartile wells on an initial production rate basis and initiated the early stages of multi-well pad development completing its first 3 and 4 well pads and drilling its first extended reach horizontals (ERH) in the latter part of the year. Greater cost efficiencies are being realized at this stage and all in well costs of approximately $6 million per well were achieved on its first 4 well pad in 2018. The Company and its independent reserve evaluators see a range of 350 mboe to over 550 mboe of estimated ultimate recovery potential per well on Artis lands which are forecast to generate exceptional returns at strip pricing (Feb/19) of 40% to 140% on a before tax basis, which would rank as top decile half-cycle returns for oil projects in North America.

In 2019 Artis plans to invest up to $245 million in the continued development of its Duvernay project depending on commodity prices. The Company will continue to delineate its large landholdings and explore the value potential in the Lower Duvernay. The 2019 program will have a greater bias towards multi-well pad development and a direction towards long term cash flow self sustainability. With top decile project operating netbacks and rates of returns for its wells and its large inventory of drill locations, the Company is well on its way to delivering a premium North American light oil resource Company. Artis was recently recognized as one of the top Canadian exploration and production companies for 2018 by the Explorers and Producers Association of Canada (EPAC). Artis was awarded the top Emerging Producer, on the basis of operational and financial performance, and corporate leadership in the areas of community engagement, technical innovation, and environmental health and safety. Although our focus is on delivering efficient growth and top tier value to our shareholders, it is a credit to our team and board of directors to be recognized in these areas by our industry peers and sponsors.

I look forward to reporting back to you on the exciting growth of our Company through 2019.

Respectfully,

[signature]

Darryl Metcalfe
President & Chief Executive Officer

March 26, 2019

RESERVES DATA

The reserves data set forth below is based on an independent reserve evaluation prepared by GLJ Petroleum Consultants ("GLJ") with an effective date of December 31, 2018 (the "GLJ Report"). The following presentation summarizes Artis' oil, natural gas and NGLs reserves and the net present values, before income tax, of future net revenue for the Company's reserves using forecast prices and costs based on the GLJ Report. The GLJ Report has been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook and the reserves definitions contained in the Canadian Securities Administrators National Instrument 51-101 ("NI 51-101").

All evaluations and forecasts of future net revenues are stated prior to any provisions for interest costs or general and administrative costs, and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and cost assumptions will be attained, and as a result, variances could be material. The recovery and reserve estimates of the Company's oil, natural gas and NGLs reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual oil, natural gas and NGLs reserves may be greater than or less than the estimates provided herein.

Reserves Summary

During 2018, the Company's total proved reserves increased 122% to 39.7 million boe and total proved plus probable reserves increased 72% to 144.8 million boe.

The following table provides summary reserves information based on the GLJ Report and using the published GLJ (2019-01-01) price forecast:

	Tight Oil		Shale Gas		NGLs		Oil Equivalent	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(mbbls)	*(mbbls)*	*(mmcf)*	*(mmcf)*	*(mbbls)*	*(mbbls)*	*(mboe)*	*(mboe)*
Proved								
Developed Producing	**6,083**	**5,287**	**2,933**	**2,720**	**138**	**119**	**6,710**	**5,860**
Developed Non-Producing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Undeveloped	**30,400**	**26,145**	**12,160**	**11,289**	**570**	**487**	**32,997**	**28,513**
Total proved	**36,483**	**31,431**	**15,093**	**14,009**	**708**	**606**	**39,707**	**34,372**
Total probable	**96,792**	**79,340**	**38,853**	**35,293**	**1,821**	**1,481**	**105,088**	**86,704**
Total proved plus probable	**133,275**	**110,772**	**53,946**	**49,301**	**2,529**	**2,087**	**144,795**	**121,076**

(1) "Gross" reserves means the Company's working interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Company.
(2) "Net" reserves means the Company's working interest (operated and non-operated) share after deduction of royalty obligations, plus the Company's royalty interest in production or reserves.
(3) Oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.
(4) May not be additive due to rounding.

Reserves Values

The estimated before tax net present values of future net revenue associated with the Company's reserves effective December 31, 2018 and based on the published GLJ (2019-01-1) future price forecast are summarized in the following table:

	Before Income Taxes Discounted At (% per year)			
	0%	10%	15%	20%
(000s)	*(M$)*	*(M$)*	*(M$)*	*(M$)*
Proved				
Developed Producing	**282,824**	**199,430**	**175,396**	**157,580**
Developed Non-Producing	**-**	**-**	**-**	**-**
Undeveloped	**1,285,347**	**635,113**	**478,023**	**370,515**
Total proved	**1,568,171**	**834,543**	**653,418**	**528,095**
Total Probable	**4,908,397**	**1,780,001**	**1,210,204**	**867,697**
Total proved plus probable	**6,476,568**	**2,614,544**	**1,863,622**	**1,395,792**

(1) The estimated future net revenues are reduced for estimated future abandonment and site restoration costs and estimated capital for future development associated with the reserves.
(2) Prior to provision of income taxes, interest and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by GLJ represent the fair market value of the reserves.
(3) May not be additive due to rounding.

ARTIS EXPLORATION LTD

Financial Statements

For the year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Artis Exploration Ltd.

Opinion

We have audited the financial statements of Artis Exploration Ltd. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2018 and December 31, 2017
- the statements of income and comprehensive income for the years then ended
- the statements of changes in 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, 2018 and December 31, 2017, 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.

Other Information

Management is responsible for the other information. Other information comprises: Management's Discussion and Analysis.

- the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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

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

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis 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.

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
March 26, 2019

STATEMENTS OF FINANCIAL POSITION

As at December 31,	**2018**	2017
(000s)	*($)*	*($)*
Assets		
Current assets		
Cash and cash equivalents	**64,988**	20,584
Trade and other receivables	**9,809**	8,824
Prepaid expenses and inventory	**794**	425
	75,591	29,833
Non-current assets		
Property, plant and equipment *(note 5)*	**289,492**	116,836
Exploration and evaluation assets *(note 6)*	**77,467**	65,212
	366,959	182,048
Total assets	**442,550**	211,881
Liabilities		
Current liabilities		
Trade and other payables	**37,113**	11,421
Provisions *(note 8)*	**260**	-
	37,373	11,421
Non-current liabilities		
Provisions *(note 8)*	**5,730**	3,222
Deferred tax liability *(note 12)*	**9,798**	4,882
	15,528	8,104
Total liabilities	**52,901**	19,525
Equity		
Share capital *(note 9)*	**369,361**	190,865
Contributed surplus	**9,695**	5,716
Retained earnings (deficit)	**10,593**	(4,225)
Total equity	**389,649**	192,356
Total liabilities and equity	**442,550**	211,881

Subsequent events *(note 15)*
Commitments *(note 18)*

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,

[signature] *[signature]*

M. Bruce Chernoff
Director

Mark Poelzer
Director

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For year ended December 31,

	2018	2017
(000s, except per share amounts)	*($)*	*($)*
Revenue		
Petroleum and natural gas revenues *(note 10)*	**57,493**	17,283
Royalties	**(3,903)**	(992)
Other revenue *(note 10)*	**2,338**	375
	55,928	16,666
Expenses		
Operating	**7,959**	2,001
Transportation	**5,083**	1,206
General and administrative	**2,829**	2,337
Depletion and depreciation *(note 5)*	**15,051**	4,549
Exploration and evaluation *(note 6)*	**195**	816
Onerous contract *(note 8b)*	**522**	-
Share-based compensation *(note 17)*	**2,764**	1,800
	34,403	12,709
Income from operations	**21,525**	3,957
Finance expenses *(note 11)*	**164**	31
Income from before income taxes	**21,361**	3,926
Deferred income tax expense *(note 12)*	**6,543**	1,703
Income and comprehensive income for the year	**14,818**	2,223
Income per share		
Basic diluted *(note 16)*	**0.10**	0.03
Diluted *(note 16)*	**0.09**	0.03

The notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

	Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
(000s)	*(#)*	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2018	**123,018**	**190,865**	**5,716**	**(4,225)**	**192,356**
Issue of common shares *(note 9)*	**36,579**	**182,896**	**-**	**-**	**182,896**
Share-based compensation	**-**	**-**	**3,979**	**-**	**3,979**
Share issue costs, net of tax of $1,627 *(note 12)*	**-**	**(4,400)**	**-**	**-**	**(4,400)**
Income for the year	**-**	**-**	**-**	**14,818**	**14,818**
Balance – December 31, 2018	**159,597**	**369,361**	**9,695**	**10,593**	**389,649**

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
(000s)	*(#)*	*($)*	*($)*	*($)*	*($)*
Balance – Janaury 1, 2017	47,417	57,251	3,059	(6,448)	53,862
Issue of common shares *(note 9)*	75,601	133,683	-	-	133,683
Share-based compensation	-	-	2,657	-	2,657
Share issue costs, net of tax of $25 *(note 12)*	-	(69)	-	-	(69)
Income for the year	-	-	-	2,223	2,223
Balance – December 31, 2017	123,018	190,865	5,716	(4,225)	192,356

The notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For year ended December 31

(000s)	**2018** ($)	2017 ($)
Cash flows from operating activities		
Income for the year	**14,818**	2,223
Adjustments for:		
Depletion and depreciation *(note 5)*	**15,051**	4,549
Exploration and evaluation *(note 6)*	**195**	816
Onerous contract *(note 8b)*	**522**	-
Deferred income taxes *(note 12)*	**6,543**	1,703
Share-based compensation *(note 17)*	**2,764**	1,800
Accretion of decommissioning liabilities *(note 8)*	**77**	31
Change in non-cash working capital *(note 13)*	**2,580**	(3,651)
Net cash from operating activities	**42,550**	7,471
Cash flows from investing activities		
Property, plant and equipment expenditures *(note 5)*	**(174,790)**	(68,859)
Additions to exploration and evaluation assets *(note 6)*	**(21,983)**	(66,838)
Disposition of exploration and evaluation assets	**-**	50
Change in non-cash working capital *(note 13)*	**21,759**	(2,644)
Net cash used in investing activities	**(175,014)**	(138,291)
Cash flows from financing activities		
Proceeds from issue of share capital *(note 9)*	**182,896**	133,683
Receipt of restricted cash	**-**	9,344
Share issuance costs *(note 9)*	**(6,028)**	(94)
Net cash from financing activities	**176,868**	142,933
Change in cash and cash equivalents	**44,404**	12,113
Cash and cash equivalents – beginning of year	**20,584**	8,471
Cash and cash equivalents – end of year	**64,988**	20,584

The notes are an integral part of these financial statements.

1. Reporting Entity

1764821 Alberta Ltd. ("1764821") was incorporated on August 8, 2013 under the Business Corporations Act of Alberta (the “ABCA”). On November 3, 2015, 1764821 acquired all of the outstanding shares of Artis Exploration Ltd. and the two companies were amalgamated on November 3, 2015 under the ABCA to form Artis Exploration Ltd. (“Artis” or the “Company”). The Company's registered office is located at Suite 820, 600 – 3rd Avenue. S.W., Calgary, Alberta. Artis is engaged in the exploration and development and production of crude oil, natural gas and NGLs in Western Canada.

2. Basis of Preparation

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors on March 26, 2019.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and Presentation of Currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgements

Critical Judgements in Applying Accounting Policies

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

The Company's assets are aggregated into cash generating units ("CGUs") for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs is based on management's judgement in regards to geographical proximity, geology, production profile, shared infrastructure and similar exposure to market risk and materiality. Based on this assessment, the CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Judgements are required to assess when impairment indicators exist and impairment testing is required.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found.

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

Key Sources of Estimation Uncertainty

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

Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, foreign currency exchange rates, discount rates and operating and transportation costs for future cash flows. It also requires the interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries of reserves. The economic, geological and geophysical, and other technical factors used to estimate proved and probable reserves may change from period to period. Changes in reported reserves can affect the non-cash impairment of assets, the provision of decommissioning obligations, the economic feasibility of exploration and evaluation assets, the recognition of deferred tax assets and the amounts reported for depletion and depreciation of property, plant and equipment. These reserves estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook by in-house Company engineers who establish reserves determinations based on the guidance stipulated by National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost and the estimate of the liability specific discount rates to determine the present value of these cash flows.

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

The Company's estimate of non-cash share-based compensation is dependent on estimates of historic stock price trading volatility, interest rates, expected terms to exercise and forfeiture rates.

The deferred tax asset or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

The accrual method of accounting will require management to incorporate certain estimates, including revenues, royalties, production costs and capital expenditures as at a specific reporting date but for which actual revenue and royalties have not yet been received, and estimates on capital projects that are in progress or recently completed where actual costs have not been received at a specific reporting date.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently in these financial statements.

(a) Jointly Owned Assets

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

(b) Financial Instruments

(i) Non-Derivative Financial Instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

These non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative Financial Instruments

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and interest rate risk. These instruments will not be used for trading or speculative purposes. When the Company enters into these contracts, it will not designate its financial derivative contracts as effective accounting hedges, and as a result, will not apply hedge accounting, even though the Company will consider all commodity contracts to be economic hedges. Consequently, all financial derivative contracts will be classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Attributable transaction costs are recognized in earnings when incurred.

The Company will account for forward physical delivery sales contracts, which are entered into and continue to be held for the purpose of receipt or delivery of non-financial items. As such, these contracts will not be considered to be derivative financial instruments and are not recorded at fair value on the statement of financial position. Settlements on physical sales contracts will be recognized in oil and natural gas revenues.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(iii) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Property, Plant and Equipment and Exploration and Evaluation Assets

(i) Recognition and Measurement

Exploration and Evaluation Expenditures

Pre-license costs are recognized in the statement of loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area, pending determination of technical feasibility and commercial viability.

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification, to property, plant and equipment. Exploration and evaluation assets are assessed for impairment if (a) sufficient data exists to determine technical feasibility and commercial viability, and (b) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The impairment of exploration and evaluation assets, and any eventual reversal thereof, is recognized in the statement of profit or loss.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment. The cost of undeveloped land that expires is recognized in profit or loss.

Development and Production Costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. The Company has grouped its development and production assets into the following CGU: Trochu/Twining. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

(ii) Subsequent Costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as property, plant and equipment 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 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.

(iii) Depletion and Depreciation

The net carrying value of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by Company reserves engineers at least quarterly.

Proved and probable reserves are estimated using independent reserves engineer reports and represent the estimated quantities of crude oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and that are considered commercially producible.

For other assets, depreciation is recognized in profit or loss on a declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for other assets for the current and comparative years are as follows:

- Office equipment and fixtures — 30% declining basis
- Computer hardware and software — 30% declining basis

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(d) Impairment

(i) Non-Derivative Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis.
All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGUs). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate, which would be applied by such a market participant to arrive at a net present value of the CGU. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant 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 profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Impairment losses, for non-financial assets other than goodwill, 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 or amortization, if no impairment loss had been recognized.

(e) Share-Based Payments

The grant date fair value of options granted to employees and consultants are recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses.

(i) Decommissioning Obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category unless it arises from the normal course of production activities, in which case it is recognized in profit or loss.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs, whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

(ii) Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

(g) Revenue

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer.

The Company 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, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company 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, is any, realized by the Company from the transaction.

Tariffs, tolls and other 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.

(h) Finance Expense

Finance expense comprises interest expense on borrowings and accretion of the discount on decommissioning liabilities.

(i) Income Tax

Income tax expense comprises 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the 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. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. 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.

(j) Earnings Per Share

Basic earnings per share is calculated by dividing earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, such as options, performance warrants and retention awards granted.

(k) 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 value at the acquisition date. The cost of an acquisition is measured as the aggregate consideration transferred, measured at the acquisition date fair value. Any excess of cost of the acquisition over the recognized amounts of identifiable assets, liabilities and contingent liabilities is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in statement of earnings (loss) and comprehensive income (loss). Acquisition costs incurred are expensed.

(l) Income Statement Presentation

Expenses in the statement of income are presented as a combination of function and nature in conformity with industry practice. Share-based compensation and depletion and depreciation expenses are presented on separate lines by their nature, while operating, transportation, marketing and general and administrative expenses are presented on a functional basis.

4. Change in accounting policies:

(a) IFRS 15 Revenue from Contracts with Customers:

As of January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers using a single principal based, five step model. The Company used the cumulative effect method to adopt the new standard. There was no adjustment to opening retained earnings as at January 1, 2018.

The additional disclosures required by IFRS 15, including those required for the cumulative effect method, are disclosed in note 10.

(b) IFRS 9 Financial Instruments

As of Janaury 1, 2018, the Company adopted IFRS 9 Financial Instruments. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting and introduces a forward-looking expected loss impairment model. The change in classification category did not result in an adjustment to the carrying amount of the related assets and the adoption of this standard has not had a material impact on the Company's financial statements.

(c) IFRS 16 Leases:

As of Janaury 1, 2019, the Company will be required to adopt IFRS 16 Leases, which will replace IFRS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. On adoption of IFRS 16, the Company will recognize lease liabilities related to leases previously classified as operating leases. The lease liability will be calculated as the present value of the remaining lease payments, discounted using the Company's borrowing rate on January 1, 2019. The Company plans to use the modified retrospective approach on adoption of IFRS 16 and intends to use the following practical expedients permitted under the standard. Some of these expedients are on a lease-by-lease basis and others are applicable by class of underlying assets:

- Account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of a lower dollar value;
- All right of use assets will be equal to the corresponding lease liability at transition date; and
- Recognize lease liabilities at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated right of use assets will be measured at the amount equal to the lease liability on date of transition.

  Management has identified the right of use assets and lease liabilities relating primarily to office space and field vehicles. The impact to the financial statements will be as follows:

- Lower general and administrative expenses and operating costs;
- Higher finance expenses due to the interest recognized on the lease obligations; and
- Higher depetion and depreciation expense relating to the right of use assets.

As at December 31, 2018, the Company is in the process if finalizing the full impact of IFRS 16 and developing and implementing policies, internal controls and process.

5. Property, Plant and Equipment

	Oil and Natural Gas Properties
(000s)	*($)*
Cost or deemed cost	
Balance – December 31, 2016	39,852
Additions	68,859
Capitalized share-based compensation	857
Transfer from exploration and evaluation assets	11,266
Change in decommissioning obligations	2,466
Balance – December 31, 2017	123,300
Additions	**174,790**
Capitalized share-based compensation	**1,215**
Transfer from exploration and evaluation assets	**9,533**
Change in decommissioning obligations	**2,169**
Balance – December 31, 2018	**311,007**
Depletion and depreciation	
Balance – December 31, 2016	1,915
Depletion and depreciation for the year	4,549
Balance – December 31, 2017	6,464
Depletion and depreciation for the year	**15,051**
Balance – December 31, 2018	**21,515**
Carrying amounts	
December 31, 2017	116,836
December 31, 2018	**289,492**

Depletion and Depreciation

The calculation of 2018 depletion and depreciation expense included an estimated $1.9 billion (2017 – $1.1 billion) for future development costs associated with proved plus probable undeveloped reserves and excluded $0.6 million (2017 – $0.4 million) for the estimated salvage value of production equipment and facilities. The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal of impairment, are recognized in depletion and depreciation in the statement of income and comprehensive income.

Capitalization of G&A and Share-Based Compensation

A total of $1.5 million in G&A expenditures have been capitalized and included in PP&E assets at December 31, 2018 (December 31, 2017 – $0.8 million). Also included in PP&E are non-cash share-based payments of $1.2 million (December 31, 2017 – $0.9 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At December 31, 2018 and 2017, the Company determined that no indicators of impairment existed on its one CGU, therefore, no impairment test was performed as at December 31, 2018 and 2017.

6. Exploration and Evaluation Assets

(000s)	*($)*
Cost	
Balance – December 31, 2016	10,506
Additions	66,838
Transfers to property, plant and equipment	(11,266)
Impairments	(835)
Disposals	(31)
Balance – December 31, 2017	65,212
Additions	**21,983**
Transfers to property, plant and equipment	**(9,533)**
Impairments	**(195)**
Balance – December 31, 2018	**77,467**

Exploration and evaluation assets consist of the Company's exploration projects that are pending the determination of proved or probable reserves. Additions in the year are primarily made up of undeveloped land purchases. Impairments relate to undeveloped land expiries and any related seismic costs incurred on those lands.

In 2017 the Company disposed of certain undeveloped land for gross proceeds of $50,000 and recorded a gain of $19,000 which is included in exploration and evaluation expenses on the income statement.

7. Bank Loan

At December 31, 2018, the Company had a revolving demand credit facility with a bank with a borrowing base of $65 million (2017 – $25 million), of which nil (2017 – nil) had been drawn against the credit facility. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lenders based primarily on reserves and using commodity prices estimated by the lenders as well as other factors.

The current credit facility provides that advances may be made by way of direct advances or guaranteed notes. Direct advances bear interest at the bank's prime rate plus 0.25% (unless the net debt to trailing cash flow exceeds 0.5:1, in which case the interest rate is the bank's prime rate plus 0.50%). The interest rate rises incrementally with increases in the net debt to trailing cash flow ratio to a maximum of the bank's prime rate plus 2.5% at 3.0:1. Under the terms of the facility, a financial covenant must be maintained. The Company must not permit the working capital ratio to fall below 1.0:1. The working capital ratio is defined as the ratio of current assets plus any undrawn availability under the credit facilities to current liabilities less any amount drawn under the credit facilities. As of December 31, 2018, the Company was in compliance with the financial covenant. A general security agreement over all present and after acquired personal property and a floating charge on all lands has been provided as security along with a debenture and supplemental debentures totaling $200 million.

8. Provisions

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Decommissioning obligations (a)	**5,468**	3,222
Onerous contract (b)	**522**	-
Total provisions	**5,990**	3,222

As reported on the statements of financial position, the Company's provisions consist of:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Current portion	**260**	-
Long term portion	**5,730**	3,222
Total provisions	**5,990**	3,222

(a) Decommissioning obligations

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas wells. The total decommissioning liability is estimated based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be $5.5 million as at December 31, 2018 (2017 – $3.2 million) based on an undiscounted inflated total future liability of $7.0 million (2017 – $4.0 million) using an assumed inflation rate of 2% (2017 – 2%) per year. These payments are expected to be made over the next 15 years. The discount factor, being the risk-free rate related to the liability, is 2.0% (2017 – 1.8%).

The following table reconciles the Company's decommissioning obligations for the years ended December 31, 2018 and 2017:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Balance – beginning of year	**3,222**	725
Liabilities incurred	**2,169**	2,466
Accretion of decommissioning obligation	**77**	31
Balance – end of year	**5,468**	3,222

(b) Onerous contract

During the year ended December 31, 2018, Artis recognized a provision caused by the onerous portion of its Calgary head office lease contract. This provision represents the present value of the minimum future lease payments the Company is obligated to make under the estimated onerous portion of the non-cancellable lease contract less estimated recoveries. At December 31, 2018, the undiscounted amount of future cash flows to settle this provision was $0.5 million. These cash flows have been discounted using a risk-free discount rate of 1.86%. The onerous contract provision is estimated to be settled in future reporting periods through to May 2021.

The following table reconciles the Company's onerous contract for the years ended December 31, 2018 and 2017:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Balance – beginning of year	**-**	-
Liabilities incurred	**522**	-
Balance – end of year	**522**	-

9. Share Capital

(a) Authorized

An unlimited number of voting common shares with no par value. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share.

An unlimited number of special voting shares with no par value. The holders of special voting shares are entitled to one vote per share.

An unlimited number of first preferred shares with no par value, issuable in series. Preferred shares have not been issued. The rights attaching to first preferred shares shall be determined by the Board before the issuance of each series.

(b) Share Capital issued and outstanding:

Common Shares

	Shares	Amount
(000s)	*(#)*	*($)*
Balance – December 31, 2016	**47,417**	**57,251**
Issue of common shares	75,601	133,683
Share issue cost	-	(94)
Tax benefit of share issue cost	**-**	25
Balance – December 31, 2017	**123,018**	**190,865**
Issue of common shares	36,579	182,896
Share issue cost	-	(6,028)
Tax benefit of share issue cost	**-**	1,628
Balance – December 31, 2018	**159,597**	**369,361**

Special Voting Shares

	Shares	Amount
(000s)	*(#)*	*($)*
Balance – December 31, 2016	**41,090**	**1**
Special voting shares cancelled	(41,090)	(1)
Balance – December 31, 2017	**-**	**-**

On May 24, 2018 the Company closed a non-brokered private placement where it raised gross proceeds of $182.9 million which resulted in the issuance of 36.6 million Common Shares at a price of $5.00/share.

On December 1 and 8, 2017 the Company closed a non-brokered private placement where it raised gross proceeds of $37.2 million which resulted in the issuance of 13.5 million Common Shares at a price of $2.75/share.

On September 19 and 20, 2017 the Company closed a non-brokered private placement where it raised gross proceeds of $45.1 million which resulted in the issuance of 21.0 million Common Shares at a price of $2.15/share.

On July 7, 2016 (the “Closing Date”), the Company completed private placements with certain private equity funds and certain insiders of the Company (“Major Investors”) and other investors (collectively referred to as, the “Investors”) for a total financing of up to 67.0 million Common Shares at a price equal to $1.25 per Common Share (“Issue Price”) for a total subscription amount, once fully drawn, of $83.7 million (the “Total Financing”).

On the Closing Date, each Major Investor subscribed for equity line units (“Units”) at a price of $3.75 per Unit. Each Unit consisted of 3 Common Shares, 17 Special Voting Shares and 17 Call Obligations (each a “Call Obligation”). Each Special Voting Share had the same voting rights as a Common Share. Following approval of the board of directors of the Company (the “Board”), each Call Obligation required the holder thereof to subscribe for one (1) Common Share at a price of $1.25 per

Common Share and upon the issuance of a Common Share pursuant to a Call Obligation, an equal number of Special Voting Shares were cancelled in accordance with their terms.

On March 29, 2017, the Company issued an additional 27.1 million Common shares to the Major Investors for total proceeds of $33.9 million and on June 12, 2017 14.0 million Common Shares were issued to the Major Investors for total gross proceeds of $17.5 million. All draw downs on the equity line of credit (ELOC) were completed on June 12, 2017.

10. Revenue

The Corporation sells its production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Oil production	**55,729**	17,030
Gas production	**863**	170
NGLs production	**901**	83
Total revenue	**57,493**	17,283

Other revenue:

The following table summarizes the Company's other revenue:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Third party processing income	**288**	29
Interest income	**2,050**	346
	2,338	375

11. Finance Expenses

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Standby fees on credit facility	**87**	-
Accretion of provisions	**77**	31
Finance expenses	**164**	31

12. Income Taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to loss before income taxes. These differences are explained as follows:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Income before taxes	**21,361**	3,926
Tax rate	**27.0%**	27.0%
Computed income tax expense provision	**5,767**	1,060
Increase in income taxes resulting from:		
Non-deductible items	**776**	643
Deferred income tax expense	**6,543**	1,703

Recognized Deferred Tax Assets and Liabilities

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes versus the amounts used for income tax purposes. The components of the Company's net deferred income tax assets and liabilities are as follows:

As at December 31,	**2018**	2017
(000s)	*($)*	*($)*
Deferred income tax assets (liabilities)		
Share issue costs	**1,413**	164
Property and equipment	**(14,121)**	(6,825)
Provisions	**1,574**	870
Non-capital losses and other	**1,336**	909
Deferred income tax liability	**(9,798)**	(4,882)

At December 31, 2018, the Company has approximately $322.4 million (2017 – of $159.4 million) of tax pools available for deduction against future taxable income. Non-capital losses of $4.9 million will begin expiring in 2033.

Movement in temporary differences during the years ended December 31, 2018 and 2017 are outlined below.

	Balance Janaury 1, 2018 Asset (Liability)	Recognized in Profit or Loss Asset (Liability)	Recognized in Equity Asset (Liability)	December 31, 2018 Asset (Liability)
(000s)	*($)*	*($)*	*($)*	*($)*
Property, plant and equipment	**(6,825)**	**(7,339)**	**-**	**(14,164)**
Share issue costs	**164**	**(378)**	**1,627**	**1,413**
Provisions	**870**	**747**	**-**	**1,617**
Non-capital tax losses and other	**909**	**427**	**-**	**1,336**
	(4,882)	**(6,543)**	**1,627**	**(9,798)**

	Balance January 1, 2017 Asset (Liability)	Recognized in Profit or Loss Asset (Liability)	Recognized in Equity Asset (Liability)	December 31, 2017 Asset (Liability)
(000s)	*($)*	*($)*	*($)*	*($)*
Property, plant and equipment	(4,046)	(2,779)	-	(6,825)
Share issue costs	239	(100)	25	164
Decommissioning liabilities	196	674	-	870
Non-capital tax losses and other	407	502	-	909
	(3,204)	(1,703)	25	(4,882)

13. Supplemented Cash Flow Information

Changes in non-cash working capital is comprised of:

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Trade and other receivables	**(985)**	(7,225)
Prepaid expenses and inventory	**(369)**	(383)
Trade and other payables	**25,693**	1,313
	24,498	(6,295)
Related to operating activities	**2,580**	(3,651)
Related to investing activities	**21,759**	(2,644)
	24,339	(6,295)

Years ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Interest paid	**-**	-

14. Determination of Fair Values

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

(a) Cash and Cash Equivalents, Trade and Other Receivables, and Trade and Other Payables

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2018 and December 31, 2017, the fair value of these balances approximated their carrying value due to their short-term to maturity.

(b) Stock Options

The fair value of employee stock options is measured using a Black-Scholes-Merton option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, expected forfeitures and the risk-free interest rate (based on government bonds).

15. Financial Risk Management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

- credit risk;
- liquidity risk; and
- market 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.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management 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) Credit Risk

The Company is subject to credit risk on its cash and cash equivalents and trade and other receivables. The Company's cash and cash equivalents are held at major financial institutions and, as such, are subject to the credit risk of those institutions. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from partners and oil and natural gas marketers. The maximum exposure to credit risk was the outstanding trade and other receivables balance of $9.8 million as at December 31, 2018.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

Years ended December 31	2018	2017
(000s)	*($)*	*($)*
Oil and natural gas revenue from marketing companies	**2,810**	**4,510**
Partners in joint owned assets	**4,862**	**3,625**
Refundable GST	**1,942**	**633**
Other	**195**	**56**
Total trade and other receivables	**9,809**	**8,824**

The Company's trade and other receivables are aged as follows:

Years ended December 31	2018	2017
(000s)	*($)*	*($)*
Current (less than 90 days)	**9,703**	**8,804**
Past due (more than 90 days)	**106**	**20**
Total	**9,809**	**8,824**

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any significant losses from non-performance by these customers. As such, a provision for doubtful accounts has not been recorded at December 31, 2018 or at December 31, 2017.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

The financial liabilities on the statement of financial position include trade and other payables.

The following are the contractual maturities of financial liabilities, including estimated interest payments, excluding the impact of netting agreements, at December 31, 2018:

As at December 31, 2017	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
(000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Non-derivative financial liabilities						
Trade and other payables	**37,113**	**37,113**	**37,113**	**-**	**-**	**-**
Onerous contract	**260**	**260**	**260**	**-**	**-**	**-**
	37,373	**37,373**	**37,373**	**-**	**-**	**-**

(d) Market Risk

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

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Currency Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency; however, the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place at December 31, 2018 or 2017.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company had no bank debt outstanding during the year.

Commodity Price Risk

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

In the future, the Company may enter into various financial derivative forward sales contracts and physical sales contracts to protect its cash flow from operating activities. The Company's production is usually sold using "spot" or near-term contracts with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long-term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sales requirements.

At December 31, 2018 and 2017, the Company did not have any derivative contracts outstanding.

Derivative assets:

Derivatives will be recorded on the statement of financial position at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of income.

The Company’s derivatives will be measured in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

a) Level 1: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2: fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
c) Level 3: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's derivative contracts will be valued using Level 2 of the hierarchy.

Subsequent to December 31, 2018, the Company entered into the following derivative commodity contracts:

Subject of Contract	Notional Quantity	Term	Reference	Strike Price	Option Traded
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ MSW – WTI differential	($10.75)/bbl	Swap
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ MSW – WTI differential	($10.80)/bbl	Swap
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ NYMEX - WTI	$59.35/bbl	Swap

(e) Capital Management

Artis actively manages its capital structure, which includes shareholders' equity and working capital. In order to maintain or adjust the capital structure, Artis considers the following: incremental investment and acquisition opportunities; the current level of working capital; the level of credit that may be obtainable from the Company's lender as a result of growth in reserves values; the availability of other sources of debt with different characteristics than potential bank debt; the sale of assets; limiting the size of the investment program; and new share issuances, if available on favourable terms. The Company's objective is to maintain a flexible structure that will allow it to execute its investment program, including exploration and development of its oil and gas properties and acquisition and disposition transactions, which all carry varying amounts of risk. Artis continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its investment program. Artis may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The method used by the Company to monitor capital is based on the Company's working capital position. The Company also prepares annual capital expenditure budgets that are updated as necessary depending on varying factors, including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2018, Artis had positive working capital of $38.2 million.

Years Ended December 31,	**2018**	2017
(000s)	*($)*	*($)*
Current assets	**75,591**	29,833
Current liabilities	**37,374**	11,421
Working capital	**38,217**	18,412

16. Earnings Per Share

Basic earnings per share was calculated as follows:

Years ended December 31,	**2018**	2017
(000s)	*(#)*	*(#)*
Weighted average number of common shares – basic		
Issued common shares – beginning year	**123,018**	47,417
Effects of shares issued	**21,447**	39,083
Weighted average number of common shares – basic	**144,465**	86,500

	2018	2017
(000s)	*(#)*	*(#)*
Weighted average number of common shares – basic	**144,465**	86,500
Effects of options, performance warrants and RAs in-the-money	**14,885**	1,263
Weighted average number of common shares – diluted	**159,350**	87,763

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on share prices for common shares issued during the period that the options, performance warrants and retention awards ("RAs") were outstanding.

17. Share-Based Payments

The Company has a stock option plan pursuant to which options to purchase common shares of the Company may be granted to employees, directors and other service providers of the Company. The maximum number of common shares issuable on exercise of options granted pursuant to the stock option plan may not exceed 10% of the issued and outstanding common shares of the Company. The options of the Company are exercisable for a period of five years and vest over a period of three years commencing on the first anniversary.

The Company also grants performance warrants to employees, directors, officers and other service providers of the Company. Each performance warrant entitles the holder to purchase one common share of the Company. The maximum number of common shares issuable on exercise of warrants granted may not exceed 25% of the issued and outstanding common shares of the Company as at the date of the closing of the ELOC financing being 88,506,734 common shares. The outstanding performance warrants of the Company are exercisable for a period of five years and vest immediately prior to a liquidity event.

The Company also has retention awards ("RAs") outstanding to officers and employees of the Company. The RAs are to be settled through the issuance of common shares upon vesting. Vesting occurs one business day prior to a liquidity event.

The fair value of the performance warrants and RAs has not been recognized as it is not more likely than not that they will vest as at December 31, 2018.

The number and weighted average exercise prices of stock options are as follows:

Years ended December 31,	**2018**		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	(#000s)	*($)*	*(#000s)*	*($)*
Outstanding – January 1	**8,653**	**1.31**	7,095	1.25
Granted	**2,870**	**2.75**	1,558	1.57
Outstanding – December 31	**11,523**	**1.67**	8,653	1.31
Exercisable – December 31	**5,249**	**1.28**	2,365	1.25

The range of exercise prices and weighted average contractual life of the outstanding options are as follows:

Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Contractual Life
($)	*(#000s)*	*($)*	*(years)*
1.25	**7,220**	**1.25**	**2.7**
1.60	**1,433**	**1.60**	**3.4**
2.75	**2,870**	**2.75**	**4.0**
	11,523	**1.67**	**3.1**

The number and weighted average exercise prices and weighted average contractual life of performance warrants are as follows:

Year ended December 31,	**2018**		2017	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
	(#000s)	*($)*	*(#000s)*	*($)*
Outstanding – January 1	**16,925**	**2.50**	16,925	2.50
Granted	**4,230**	**2.50**	-	-
Outstanding – December 31	**21,155**	**2.50**	16,925	2.50
Exercisable – December 31	**-**	**-**	-	-

The range of exercise prices of the outstanding performance warrants are as follows:

Exercise Price	Warrants	Weighted Average Exercise Price	Weighted Average Contractual Life
($)	*(#000s)*	*($)*	*(years)*
1.88	**4,231**	**1.88**	**2.5**
2.19	**4,231**	**2.19**	**2.5**
2.50	**4,231**	**2.50**	**2.5**
2.81	**4,231**	**2.81**	**2.5**
3.13	**4,231**	**3.13**	**2.5**
	21,155	**2.50**	**2.5**

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average inputs:

As at December 31,	**2018**	2017
	($)	*($)*
Share price	**2.75**	1.57
Exercise price	**2.75**	1.57
Volatility *(%)*	**60**	60
Option life *(years)*	**5.0**	5.0
Risk-free interest rate *(%)*	**2.0**	1.0
Weighted average fair value of options granted during the year	**1.44**	0.80

A forfeiture rate of 0% (2017 – 0%) was used when calculating the fair value. This estimate is adjusted to the actual forfeiture rate. Share-based compensation cost of $2.8 million (2017 – $1.8 million) was expensed during 2018.

The Company issued 307,500 RAs during 2016 all of which remain outstanding at December 31, 2018.

18. Commitments

The Company has the following fixed-term commitment related to its ongoing business:

Years Ended December 31,	2019	2020	2021	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Leased office space	452	491	450	1,393
Drilling rig contract	1,757	-	-	1,757

Office lease commitments relate to Artis' head office in Calgary, Alberta. This office lease commitment excludes the undiscounted portion considered onerous (see note 8b).

19. Key Management Personnel

Transactions with Key Management Personnel

Key management personnel consists of the Company's directors and management. The key management personnel compensation is comprised of the following:

Year ended December 31	**2018**	2017
(000s)	*($)*	*($)*
Salaries and wages	**1,472**	1,310
Short-term employee benefits	**130**	112
Share-based payments (1)	**1,594**	1,138
Total (2)	**3,196**	2,560

(1) Represents the amortization of share-based payments expense associated with the Company's share-based compensation plans granted to key management personnel.
(2) At December 31, 2018, key management personnel included eight (2017 – seven) individuals.

ARTIS EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") for Artis Exploration Ltd. ("Artis" or the "Company") reports on the financial condition and the results of operations for the years ended December 31, 2018 and December 31, 2017 and should be read in conjunction with the audited financial statements and related notes. All financial measures are expressed in Canadian dollars unless otherwise indicated. This commentary is based on the information available as at and is dated March 26, 2019.

Basis of Presentation

The audited financial statements and comparative information for the years ended December 31, 2018 and December 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Barrel of Oil Equivalency

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. For purposes of computing such units, natural gas is converted to equivalent barrels of crude oil using a conversion factor of six thousand cubic feet of gas to one barrel of oil. This conversion ratio of 6:1 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 compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

Non-IFRS Measurements

This MD&A contains the terms "funds flow from operations", "funds flow netback", "operating netback", "net operating expenses" and "net earnings netback", which are not measures that have any standardized meaning prescribed by IFRS and are considered non-IFRS measures, and as a result, should not be considered an alternative to or more meaningful than net earnings or cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. Artis' determination of funds flow from operations, funds flow netback, operating netback and net earnings netback may not be comparable to that reported by other companies. The Company considers corporate netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Operating netback is calculated on a per boe basis by deducting royalties, operating costs and transportation from petroleum and natural gas revenues; funds flow netback, in addition, deducts interest expenses, and general and administrative expenses; and, net earnings netback further deducts depletion, depreciation and accretion, share-based compensation and deferred tax expense. Per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

Funds Flow from Operations

Artis uses funds flow from operations, a measure that is not defined under IFRS. Management believes that in addition to cash provided by operations, funds flow from operations, as reported in the statement of cash flows, is a useful supplemental measure as it provides an indication of the funds generated by Artis' principal business activities prior to consideration of changes in non-cash working capital. Artis considers this to be a key measure of performance as it demonstrates its ability to generate cash flow necessary to fund capital investments. The following table reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Net cash from operating activities	**10,936**	3,385	**42,550**	7,471
Changes in non-cash working capital	**(1,211)**	2,902	**(2,580)**	3,651
Funds flow from operations	**9,725**	6,287	**39,970**	11,122

Forward-Looking Statements

This document contains forward-looking statements. Statements used throughout this MD&A that are not historical facts may be considered to be "forward-looking statements". These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans including without limitation, management's assessment of future plans and operations and the timing thereof; anticipated commodity prices and their impact; commodity mix; timing of expenditures; budgeted capital expenditures and the method of funding thereof and the nature of the expenditures; production estimates and forecasts, estimates of shut-in production and the timing thereof; timing of drilling, completion and tie-in of wells; anticipated results from wells drilled and the possible effect thereof on the Company; the expected economics of the wells to be drilled; expected royalty rates; operating expenses; general and administrative expenses; debt levels, funds from operations; completion of financings; the expected levels of activities; may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas *exploration, development, exploitation, production, marketing and transportation; volatility of commodity prices; currency flunctuations; imprecision of reserves estimates; environmental risks; competition from other producers; incorrect assessment of the value of acquisitions; ability to access sufficient capital from internal and external sources; delays resulting from inability to obtain regulatory approvals; and, changes in the regulatory and taxation environment. Consequently, the Company's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements or information is based on a number of factors and assumptions that have been used to develop such statements and information, but which may prove to be incorrect. 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. In addition to other factors and assumptions that may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects that the Company has an interest in to operate the field in a safe, efficient and effective manner; the Company's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and cost of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and, the Company's ability to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as at the date of this MD&A and the Company 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.*

Overview

1764821 Alberta Ltd. ("1764821") was incorporated on August 8, 2013 under the Business Corporations Act of Alberta (the “ABCA”). On November 3, 2015, 1764821 acquired all of the outstanding shares of Artis Exploration Ltd. and the two companies were amalgamated on November 3, 2015 under the ABCA to form Artis Exploration Ltd. (“Artis” or the “Company”). The Company's registered office is located at Suite 820, 600 3rd Ave. S.W., Calgary, Alberta. Artis is engaged in the exploration and development and production of crude oil, natural gas and NGLs in Western Canada.

Artis’ primary objective is to use its strong technical expertise in its core area to achieve profitable per share growth in reserves, production and cash flow, complemented with opportunistic acquisitions that have drilling upside and where the Company has a competitive advantage.

Financial and Operating Results

Production

The following is a summary of the Company's daily production for the periods indicated:

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
Crude oil *(bbls/d)*	**4,284**	1,337	**2,478**	740
Natural gas *(mcf/d)*	**2,263**	488	**1,320**	234
NGLs *(bbls/d)*	**109**	11	**63**	6
Total *(boe/d)*	**4,771**	1,429	**2,761**	785
Liquids *(%)*	**92**	94	**92**	95

For the three months ended December 31, 2018, production averaged 4,771 boe/d (92% weighted to crude oil and NGLs), a 234% increase over the 1,429 boe/d (94% weighted to crude oil and NGLs) averaged during the same period of 2017. During the year ended December 31, 2018, Artis’ production rose 252% to average 2,761 boe/d versus 785 boe/d for the year ended December 31, 2017. The 2018 increase was the result of a successful drilling program in its core area of Trochu where it drilled 23 (21.5 net) horizontal wells and brought on production 21 (19.5 net) wells during the year.

Revenue and Pricing

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Revenue				
Crude oil	**15,776**	8,347	**55,729**	17,030
Natural gas	**381**	89	**863**	170
NGLs	**344**	47	**901**	83
Petroleum and natural gas revenue	**16,501**	8,483	**57,493**	17,283

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Average Prices				
Crude oil *($/bbl))*	**40.02**	67.86	**61.61**	63.05
Natural gas *($/mcf))*	**1.83**	1.99	**1.79**	1.98
NGLs sales price *($/bbl)*	**34.24**	47.48	**39.24**	40.63
Total sales price *($/boe)*	**37.59**	64.53	**57.05**	60.34

Artis' production is sold within Canada and the majority is marketed to significant North American purchasers. The Company's commodity prices are driven by the prevailing worldwide crude oil price and Alberta AECO spot prices applicable to its natural gas. The Company did not have any derivative commodity contracts in place during the year.

During the three months ended December 31, 2018, revenue increased to $16.5 million from $8.5 million recorded in the same period of 2017. The 95% increase was due to the 234% increase in production but offset by the lower overall realized pricing that dropped 42% to $37.59/boe from $64.53/boe recorded last year. The large drop in the realized crude oil pricing was mainly a result of the large increase in the negative MSW differential which decreased the resulting MSW EDM par price even though world crude oil WTI prices were higher for the quarter compared to last year. The blow out in the negative MSW differential for the fourth quarter of 2018 was the result of longer than usual short-term US refinery turnarounds and longer-term inadequate pipeline capacity in Canada.

For the year ended December 31, 2018, revenue increased 233% to $57.5 million from $17.3 million last year due primarily to a 252% increase in production but partially offset by a 5% decrease in realized pricing. The Company's overall realized price decreased 5% to $57.05/boe from $60.34/boe recorded in 2017 again mainly as a result of lower crude oil prices. For the year 97% of the Company's revenue was derived from crude oil sales.

The following table summarizes the crude oil and natural gas benchmark prices:

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
Average Benchmark Prices				
Crude oil – WTI *(US$/bbl)*	**58.81**	55.40	**64.77**	50.95
MSW differential *(US$/bbl)*	**(26.30)**	(1.14)	**(11.12)**	(2.46)
Crude oil – MSW EDM par *(CDN$/bbl)*	**42.76**	68.94	**69.37**	62.82
Natural gas – AECO spot				
Daily index *($/GJ)*	**1.48**	1.60	**1.42**	2.04
Exchange rate *(CDN$/US$)*	**1.32**	1.27	**1.30**	1.30

Artis' realized corporate oil price in general tracks the posted Edmonton Light Sweet benchmark prices.

Derivative Financial Instruments

Commodities

The Company enters into derivative and physical risk management contracts in order to reduce volatility in financial results and to ensure a certain level of cash flow to fund planned capital projects. Artis' strategy focuses on the use of puts, costless collars and swaps to limit exposure to flunctuations in commodity prices while allowing for participation in commodity price increases. The Company's financial derivative trading activities are conducted pursuant to the Company's Risk Management Policy, approved by the Board of Directors.

Artis held no derivative commodity contracts in 2018 or 2017. Subsequent to December 31, 2018, the Company entered into the following derivative commodity contracts:

Subject of Contract	Notional Quantity	Term	Reference	Strike Price	Option Traded
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ MSW – WTI differential	($10.75)/bbl	Swap
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ MSW – WTI differential	($10.80)/bbl	Swap
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ NYMEX - WTI	$59.35/bbl	Swap

Royalties

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Royalties				
Crown	**746**	415	**2,571**	834
Freehold/GORR	**412**	71	**1,332**	158
Total royalties	**1,158**	486	**3,903**	992
Total royalties *($/boe)*	**2.64**	3.70	**3.87**	3.46
	(%)	*(%)*	*(%)*	*(%)*
% of Revenue				
Crown	**4.5**	4.9	**4.5**	4.8
Freehold/GORR	**2.5**	0.8	**2.3**	0.9
Total	**7.0**	5.7	**6.8**	5.7

For the quarter ended December 31, 2018, the Company recorded $1.2 million in total royalties or 7.0% of revenue versus $0.5 million or 5.7% of revenue a year ago. Approximately 4.5% of total revenue paid in the fourth quarter of 2018 consisted of Crown royalties and 2.5% of total revenue was paid to overriding ("GORR") and freehold royalty owners compared to 4.9% and 0.8%, respectively, in the 2017 three-month period.

For the year ended December 31, 2018, total royalties were $3.9 million or 6.8% of revenue versus $1.0 million or 5.7% of revenue a year ago.

Freehold/GORR royalties as a percentage of total revenue increased in 2018 compared to 2017 as the Company drilled more of its 2018 wells on freehold lands.

Net Operating Expenses

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Gross operating expenses	**3,199**	731	**7,959**	2,001
Third party processing income	**(108)**	(29)	**(288)**	(29)
Net operating expenses	**3,091**	702	**7,671**	1,972
Operating expenses *($/boe)*	**7.04**	5.34	**7.61**	6.88

Operating expenses include all costs associated with the production of oil and natural gas. The major components of production and operating costs include charges for water hauling and disposal, contract labour, equipment rentals, fuel and power as well as emulsion/oil treating charges.

Operating costs, net of third-party processing income, were $3.1 million for the fourth quarter of 2018 compared to $0.7 million recorded a year ago. Production and operating costs on a per boe basis increased 32% to $7.04/boe from $5.34/boe in 2017. Water disposal and water trucking costs increased in the fourth quarter of 2018 because of the large number of wells that came on stream.

For the year ended December 31, 2018, operating costs net of third-party processing income, were $7.7 million or $7.61/boe compared to $2.0 million or $6.88/boe in 2017. The net operating costs increased 11% on a boe basis again based on the increased water disposal and water trucking costs incurred in the fourth quarter of 2018.

Transportation Expenses

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Transportation expenses	**2,405**	557	**5,083**	1,206
Transportation expenses *($/boe)*	**5.48**	4.24	**5.04**	4.21

Transportation costs consist of pipeline tariffs for oil and NGLs along with trucking charges as well as natural gas transportation and fuel charges on NOVA. These costs can vary depending on the type of production facilities, the method of transportation, the distances covered, the rates charged by the carriers, quantities shipped and the type of service on various pipelines (interruptible versus firm service).

For the three months ended December 31, 2018, transportation costs were $2.4 million or $5.48/boe compared to $0.6 million or $4.24/boe for the same period of 2017. During 2018, transportation costs totaled $5.1 million or $5.04/boe versus $1.2 million or $4.21/boe in 2017.

Transportation costs increased during the fourth quarter and the year on a boe basis because of the longer waiting times at trucking terminals and also longer distances for trucking the crude oil as the closet terminals were not always able to accept deliveries.

Operating Netback

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
Revenue				
Crude oil *($/bbl)*	**40.02**	67.86	**61.61**	63.05
Natural gas *($/mcf))*	**1.83**	1.99	**1.79**	1.98
NGLs *($/bbl)*	**34.24**	47.48	**39.24**	40.63
Protroleum and natural gas revenue *($/boe)*	**37.59**	64.53	**57.05**	60.34

Expenses				
Royalties *($/boe)*	**(2.64)**	(3.70)	**(3.87)**	(3.46)
Operating *($/boe)*	**(7.04)**	(5.34)	**(7.61)**	(6.88)
Transportation *($/boe)*	**(5.48)**	(4.24)	**(5.04)**	(4.21)
Operating netback *($/boe)*	**22.44**	51.25	**40.52**	45.78

For the fourth quarter of 2018, the Company recorded an operating netback of $22.44/boe compared to $51.25/boe in the same quarter last year. The 56% decrease was primarily a result of the large decrease in crude oil prices. The 41% drop in the realized crude oil pricing was mainly a result of the large increase in the negative MSW differential which decreased the resulting MSW EDM par price even though world crude oil WTI prices were up for the quarter compared to last year.

During the year ended December 31, 2018, Artis' operating netback was $40.52/boe versus $45.78/boe in 2017. The 11% decrease was due to MSW EDM crude oil prices decreasing in the fourth quarter of 2018 when Artis produced 43% of its total production for the year.

General and Administrative ("G&A") Expenses

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Gross costs	**1,226**	948	**4,362**	3,182
Capitalized costs	**(359)**	-	**(891)**	-
Operator's recoveries	**(112)**	(360)	**(642)**	(845)
G&A expenses	**755**	588	**2,829**	2,337
G&A expenses *($/boe)*	**1.72**	4.47	**2.81**	8.16

For the three months ended December 31, 2018, G&A expenses totaled $0.8 million or $1.72/boe compared to $0.6 million or $4.47/boe recorded in the same period a year ago. During the fourth quarter of 2018, the Company capitalized G&A and had recoveries from operations totalling $0.5 million (2017 – $0.4 million).

G&A expenses increased to $2.8 million for the year ended December 31, 2018 or $2.81/boe compared to $2.3 million in 2017 or $8.16/boe. During 2018, $1.5 million (2017 – $0.8 million) of operator recoveries and G&A were capitalized. G&A expenses rose 21% in 2018 because of increases in staff levels to manage a growing Company but fell 66% on a boe basis as a result of production increasing by 252%.

Share-Based Compensation Expense

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Gross share-based compensation expense	**1,017**	759	**3,979**	2,657
Capitalized share-based compensation expense	**(310)**	(216)	**(1,215)**	(857)
Share-based compensation expense	**707**	543	**2,764**	1,800

The Company recognizes stock-based compensation expense for stock options issued. During the fourth quarter of 2018, Artis recorded non-cash share-based compensation expense of $0.7 million (2017 – $0.5 million) and capitalized $0.3 million (2017 – $0.2 million) for total share-based compensation of $1.0 million (2017 – $0.7 million).

The Company had non-cash share-based compensation expense of $2.8 million for the year ended December 31, 2018 (2017 – $1.8 million) and capitalized $1.2 million (2017 – $0.9 million) for total share-based compensation of $4.0 million (2017 – $2.7 million).

The year-over-year increases related to the higher fair value assigned to the 2.9 million options issued to employees and directors in January 2018. The January 2018 option allotment represented approximately 25% of the total options currently issued at December 31, 2018.

Finance Expenses

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Standby fees on credit facility	**25**	-	**87**	-
Accretion expense	**25**	13	**77**	31
Total finance expenses	**50**	13	**164**	31

The Company did not incur any interest expenses in 2018 or 2017. Standby fees of $87,000 (2017 - nil) were incurred on the Company`s credit facility for the year.

The Company's accretion expense for the year ended December 31, 2018 was $77,000 versus $31,000 for the comparable period of 2017. The larger accretion expense in 2018 relates to the increase in the decommissioning obligations due to the 21.5 net horizontal wells drilled in 2018 compared to only 9.0 net horizontal wells drilled last year.

Depletion and Depreciation ("D&D") Expense

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
D&D expense	**6,790**	1,877	**15,051**	4,549
D&D expense *($/boe)*	**15.47**	14.28	**14.93**	15.88

The Company's D&D expense for the three months ended December 31, 2018 was $6.8 million or $15.47/boe versus $1.9 million or $14.28/boe for the comparable period of 2017. For the year ended December 31, 2018, total D&D expense was $15.1 million or $14.93/boe compared to $4.5 million or $15.88/boe for the prior year. The D&D expense on a boe basis did not change significantly over the prior year.

D&D expense is computed on a unit-of-production basis. This fluctuates period to period primarily as a result of changes in the underlying proved plus probable reserves base and in the amount of costs subject to D&D, including future development costs. The calculation of 2018 depletion and depreciation expense included an estimated $1.9 billion (2017 – $1.1 billion) for future development costs associated with proved plus probable undeveloped reserves and excluded $0.6 million (2017 – $0.4 million) for the estimated salvage value of production equipment and facilities. Such costs are segregated and depleted on an area-by-area basis relative to the respective underlying proved plus probable reserves base. Currently Artis has one core area being Trochu/Twining.

Exploration and Evaluation Expense

For the year ended December 31, 2018, Artis recorded an exploration and evaluation expense of $0.2 million versus $0.8 million a year ago. The current year expense was made up of undeveloped land expiries of $195,000 (2017 - $753,000) and $nil (2017 – 82,000) for evaluation expenses. In 2017, the Company disposed of certain undeveloped land for gross proceeds of $50,000 and recorded a gain of $19,000 which is also included in exploration and evaluation expenses.

Onerous contract

As at December 31, 2018, Artis recognized a provision caused by the onerous portion of its Calgary head office lease contract. This provision represents the present value of the minimum future lease payments the Company is obligated to make under the estimated onerous portion of the non-cancellable lease contract less estimated recoveries. At December 31, 2018, the discounted amount of future cash flows to settle this provision was $522,000. These cash flows have been discounted using a risk-free discount rate of 1.86%. The onerous contract provision is estimated to be settled in future reporting periods through to May 2021.

Income Taxes

For the year ended December 31, 2018, Artis recorded a deferred income tax expense in the amount of $6.5 million compared to a $1.7 million expense in the prior year. The year-over-year increase in deferred income taxes was a result of the large increase in the net income compared to the previous year.

Artis was not subject to any corporate income taxes for 2018 or 2017. Based on the Company's forecasted cash flow and capital spending and available tax pools, the Company does not expect to be taxable in 2019. The Company has approximately $322.4 million of income tax pools available for deduction against future taxable income as at December 31, 2018.

Capital Expenditures on Property, Plant and Equipment as well as Exploration and Evaluation Assets

During the three months and year ended December 31, 2018, the Company invested $58.2 million and $196.8 million, respectively, in total capital expenditures which included capital expenditures on exploration and evaluation assets as well as property, plant and equipment, compared to $64.0 million and $135.6 million in the respective periods of 2017.

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)(excluding decommissioning liabilities)	*($)*	*($)*	*($)*	*($)*
Drilling and completions	**40,873**	25,182	**143,267**	61,025
Equipment and facilities	**10,081**	2,990	**30,205**	7,525
Geological and geophysical	**-**	-	**4,238**	448
Land and lease retention	**6,832**	35,823	**18,070**	66,632
Capitalized G&A	**359**	-	**891**	-
Other	**55**	2	**102**	17
Total capital expenditures	**58,200**	63,997	**196,773**	135,647

During the fourth quarter of 2018, the Company incurred $40.9 million (2017 – $25.2 million) in drilling and completion expenditures that involved the drilling of 6 (5.5 net) horizontal wells as compared to 3.0 (3.0 net) wells for 2017. Equipping and facilities expenditures for the three months ended December 31, 2018 and 2017 were $10.0 million and $3.0 million, respectively. During the fourth quarter of 2018, the Company invested $7.2 million on land and seismic as well as capitalized G&A and other corporate assets versus $35.8 million in 2017.

Drilling and completion expenditures totaled $143.3 million for the year ended December 31, 2018, (2017 – $61.0 million) that involved the participation in 23 (21.5 net) horizontal wells versus 10 (9.0) horizontal wells in 2017.

Drilling Activity

	Exploration		Development		Total	
	Gross	Net	Gross	Net	Gross	Net
	(#)	*(#)*	*(#)*	*(#)*	*(#)*	*(#)*
Three Months Ended December 31, 2018						
Crude oil	**-**	**-**	**6**	**5.5**	**6**	**5.5**
Total wells	**-**	**-**	**6**	**5.5**	**6**	**5.5**
Average working interest *(%)*		**-**		**92**		**92**
Three Months Ended December 31, 2017						
Crude oil	2	2.0	1	1.0	3	3.0
Total wells	2	2.0	1	1.0	3	3.0
Average working interest *(%)*		100		100		100

Year Ended December 31, 2018						
Crude oil	**14**	**13.0**	**9**	**8.5**	**23**	**21.5**
Total wells	**14**	**13.0**	**9**	**8.5**	**23**	**21.5**
Average working interest *(%)*		**93**		**94**		**93**

Year Ended December 31, 2017						
Crude oil	9	8.0	1	1.0	10	9.0
Total wells	9	8.0	1	1.0	10	9.0
Average working interest *(%)*		89		100		90

Share Capital

Common Shares	Shares	Amount
(000s)	*(#)*	*($)*
Balance – December 31, 2016	**47,417**	**57,251**
Issue of common shares	75,601	133,683
Share issue cost	-	(94)
Tax benefit of share issue cost	-	25
Balance – December 31, 2017	**123,018**	**190,865**
Issue of common shares	36,579	182,896
Share issue cost	-	(6,027)
Tax benefit of share issue cost	-	1,627
Balance – December 31, 2018	**159,597**	**369,361**

Special Voting Shares	Shares	Amount
(000s)	*(#)*	*($)*
Balance – December 31, 2016	**41,090**	**1**
Special voting shares cancelled	(41,090)	(1)
Balance – December 31, 2017	**-**	**-**

On May 24, 2018 the Company closed a non-brokered private placement where it raised gross proceeds of $182.9 million which resulted in the issuance of 36.6 million Common Shares at a price of $5.00/share.

On December 1 and 8, 2017 the Company closed a non-brokered private placement where it raised gross proceeds of $37.2 million which resulted in the issuance of 13.5 million Common Shares at a price of $2.75/share.

On September 19 and 20, 2017 the Company closed a non-brokered private placement where it raised gross proceeds of $45.1 million which resulted in the issuance of 21.0 million Common Shares at a price of $2.15/share.

On July 7, 2016 (the “Closing Date”), the Company completed private placements with certain private equity funds and certain insiders of the Company (“Major Investors”) and other investors (collectively referred to as, the “Investors”) for a total financing of up to 67.0 million Common Shares at a price equal to $1.25 per Common Share (“Issue Price”) for a total subscription amount, once fully drawn, of $83.7 million (the “Total Financing”).

On the Closing Date, each Major Investor subscribed for equity line units (“Units”) at a price of $3.75 per Unit. Each Unit consisted of 3 Common Shares, 17 Special Voting Shares and 17 Call Obligations (each a “Call Obligation”). Each Special Voting Share had the same voting rights as a Common Share. Following approval of the board of directors of the Company (the “Board”), each Call Obligation required the holder thereof to subscribe for one (1) Common Share at a price of $1.25 per Common Share and upon the issuance of a Common Share pursuant to a Call Obligation, an equal number of Special Voting Shares were cancelled in accordance with their terms.

On March 29, 2017, the Company issued an additional 27.1 million Common Shares to the Major Investors for total proceeds of $33.9 million and on June 12, 2017 14.0 million Common Shares were issued to the Major Investors for total gross proceeds of $17.5 million. All draw downs on the equity line of credit (ELOC) were completed on June 12, 2017.

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(000s)	*(#)*	*(#)*	*(#)*	*(#)*
Weighted Average Shares Outstanding				
Basic	**159,597**	114,044	**144,465**	86,500
Diluted	**166,819**	116,971	**150,758**	87,456
Outstanding Securities				
Common shares	**159,597**	123,018	**159,597**	123,018
Options	**11,523**	8,653	**11,523**	8,653
Performance warrants	**21,155**	16,925	**21,155**	16,925
Retention awards	**308**	308	**308**	308

As at March 26, 2019, Artis had 160.2 million common shares outstanding along with 13.0 million stock options with an average exercise price of $2.04 per share, 21.8 million performance warrants with an average exercise price of $2.50 per share and 0.3 million retention awards to acquire the same number of common shares of the Company.

Liquidity and Capital Resources

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The financial liabilities on the statement of financial position include trade and other payables. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

Funding for capital expenditures to be incurred in 2019 will be provided by cash generated from operating activities, current working capital and the Company’s $65.0 million unused bank credit facility. The Company had no defaults or breaches on its bank facility or any of its financial liabilities. The Company believes that it has access to sufficient capital to meet its current spending forecasts.

The following table summarizes the change in working capital for the year ended December 31, 2018 and December 31, 2017:

	2018	2017
(000s)	*($)*	*($)*
Working capital surplus – beginning of year	**18,412**	9,348
Funds flow from operations	**39,970**	11,122
Issue of share capital for cash, net of share issue costs	**176,868**	133,589

Capital expenditures	**(196,773)**	(135,647)
Onerous contract	**(260)**	-
Working capital surplus – end of year	**38,217**	18,412

Related-Party and Off-Balance Sheet Transactions

There were no off-balance sheet transactions or related party transactions entered into during the year ended December 31, 2018 or 2017.

Contractual Obligations

The Company has the following fixed-term commitments related to its ongoing business:

Years Ended December 31,	2019	2020	2021	Total
(000s)	*($)*	*($)*	*($)*	*($)*
Leased office space	452	491	450	1,393
Drilling rig contract	1,757	-	-	1,757

Office lease commitments relate to Artis' head office in Calgary, Alberta. This office lease commitment excludes the undiscounted portion considered onerous (see note 8b of the Company's December 31, 2018 financial statements).

Selected Quarterly Information

Below is summarized quarterly information for the previous eight quarters.

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	**Q1 2018**	**Q2 2018**	**Q3 2018**	**Q4 2018**
(000s, except per share amounts) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Petroleum and natural gas Revenues	1,637	1,945	5,218	8,483	**10,277**	**12,428**	**18,287**	**16,501**
Funds flow from operations	353	893	3,514	6,287	**7,162**	**9,078**	**14,005**	**9,725**
Per share [(1)] – basic	0.01	0.01	0.04	0.06	**0.06**	**0.07**	**0.09**	**0.06**
– diluted	0.01	0.01	0.04	0.05	**0.06**	**0.06**	**0.08**	**0.05**
Net income (loss)	(508)	(153)	716	2,168	**2,828**	**3,947**	**6,817**	**1,225**
Per share – basic	(0.01)	0.00	0.01	0.02	**0.02**	**0.03**	**0.04**	**0.01**
– diluted	(0.01)	0.00	0.01	0.02	**0.02**	**0.03**	**0.04**	**0.01**
Weighted average shares								
Basic	48,019	79,131	91,015	114,044	**123,018**	**137,891**	**159,597**	**159,597**
Net capital expenditures	8,422	35,697	27,531	63,997	**29,624**	**42,593**	**66,356**	**58,200**
Working capital (deficiency)[(2)]	35,153	17,907	38,943	18,412	**(4,050)**	**139,304**	**86,952**	**38,217**
Shareholders' equity	87,777	105,712	152,240	192,356	**196,123**	**379,572**	**387,406**	**389,649**
Production								
Crude oil *(bbls/d)*	283	341	985	1,337	**1,563**	**1,656**	**2,381**	**4,284**
Natural gas *(mcf/d)*	35	40	367	488	**837**	**900**	**1,263**	**2,263**
NGLs *(bbls/d)*	1	2	9	11	**36**	**46**	**60**	**109**
Total *(boe/d)*	290	350	1,055	1,429	**1,739**	**1,852**	**2,651**	**4,771**
Liquids *(%)*	98	98	94	94	**92**	**92**	**92**	**92**
Average wellhead prices								
Crude oil *($/bbl)*	63.82	62.11	56.61	67.86	**70.69**	**80.57**	**81.56**	**40.02**

Natural gas *($/mcf))*	3.11	3.12	1.74	1.99	**2.38**	**1.45**	**1.59**	**1.83**
NGLs *($/bbl)*	28.37	35.41	34.90	47.48	**46.77**	**39.63**	**43.65**	**34.24**
Total *($/boe)*	62.75	61.13	53.76	64.53	**65.67**	**73.74**	**74.98**	**37.59**
Royalties *($/boe)*	(3.97)	(3.69)	(2.94)	(3.70)	**(3.96)**	**(4.92)**	**(5.31)**	**(2.64)**
Operating costs *($/boe)*	(17.04)	(9.89)	(5.26)	(5.34)	**(7.84)**	**(8.66)**	**(7.76)**	**(7.04)**
Transportation costs *($/boe)*	(4.75)	(3.38)	(4.30)	(4.24)	**(4.61)**	**(4.43)**	**(4.97)**	**(5.48)**
Operating netback *($/boe)*	37.00	44.16	41.27	51.25	**49.25**	**55.73**	**56.94**	**22.44**

(1) Funds flow from operations per share has been calculated using the same denominator as was used in calculating net income per share.
(2) Current assets less current liabilities.

Selected Annual Information

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016
(000s, except per share amounts)	*($)*	*($)*	*($)*
Petroleum and natural gas revenues	**57,493**	17,283	2,313
Net earnings (loss)	**14,818**	2,223	(2,559)
Per share – basic	**0.10**	0.03	(0.08)
– diluted	**0.09**	0.03	(0.08)
Total assets	**442,550**	211,881	67,899
Working capital	**38,217**	18,412	9,348

Artis' oil and gas revenues, funds flow from operations and net earnings are all impacted by production levels and volatile commodity pricing. From 2017 to 2018, these performance measures have fluctuated as a result of volatile oil and natural gas prices.

Significant factors and trends that have impacted the Company's results during the above periods include:

- Revenue is directly impacted by the Company's ability to replace existing declining production and add incremental production through its ongoing capital expenditure program.
- Revenue and royalties are significantly impacted by underlying commodity prices and production levels.

New Accounting Pronouncements

The Company has reviewed the following new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company's financial statements:

(a) IFRS 15 Revenue from Contracts with Customers:

As of January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers using a single principal based, five step model. The Company used the cumulative effect method to adopt the new standard. There was no adjustment to opening retained earnings as at January 1, 2018.

(b) IFRS 9 Financial Instruments

As of Janaury 1, 2018, the Company adopted IFRS 9 Financial Instruments. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting and introduces a forward-looking expected loss impairment model. The change in classification category did not result in an adjustment to the carrying amount of the related assets and the adoption of this standard has not had a material impact on the Company's financial statements.

(c) IFRS 16 Leases:

As of Janaury 1, 2019, the Company will be required to adopt IFRS 16 Leases, which will replace IFRS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. On adoption of IFRS 16, the Company will recognize lease liabilities related to leases previously classified as operating leases. The lease liability will be calculated as the present value of the remaining lease payments, discounted using the Company's borrowing rate on January 1, 2019. The Company plans to use the modified retrospective approach on adoption of IFRS 16 and intends to use the following practical expedients permitted under the standard. Some of these expedients are on a lease-by-lease basis and others are applicable by class of underlying assets:

- Account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases:
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of a lower dollar value;
- All right of use assets will be equal to the corresponding lease liability at transition date; and
- Recognize lease liabilities at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated right of use assets will be measured at the amount equal to the lease liability on date of transition.

Management has identified the right of use assets and lease liabilities relating primarily to office space and field vehicles. The impact to the financial statements will be as follows:

- Lower general and administrative expenses and operating costs;
- Higher finance expenses due to the interest recognized on the lease obligations; and
- Higher depetion and depreciation expense relating to the right of use assets.

As at December 31, 2018, the Company is in the process if finalizing the full impact of IFRS 16 and developing and implementing policies, internal controls and process.

Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires Artis' management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis and are based on the Company's management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical Judgements in Applying Accounting Policies

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

The Company's assets are aggregated into cash generating units ("CGUs") for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs is based on management's judgement in regards to geographical proximity, geology, production profile, shared infrastructure and similar exposure to market risk and materiality. Based on this assessment, the CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Judgements are required to assess when impairment indicators exist and impairment testing is required.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found.

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

Key Sources of Estimation Uncertainty

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

Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, foreign currency exchange rates, discount rates and operating and transportation costs for future cash flows. It also requires the interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries of reserves. The economic, geological and geophysical, and other technical factors used to estimate proved and probable reserves may change from period to period. Changes in reported reserves can affect the non-cash impairment of assets, the provision of decommissioning obligations, the economic feasibility of exploration and evaluation assets, the recognition of deferred tax assets and the amounts reported for depletion and depreciation of property, plant and equipment. These reserves estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook by independent qualified reserves engineers, who work with information provided by the Company to establish reserves determinations based on the guidance stipulated by National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost and the estimate of the liability specific discount rates to determine the present value of these cash flows.

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

The Company's estimate of non-cash share-based compensation is dependent on estimates of stock price volatility, interest rates, expected terms to exercise and forfeiture rates.

The deferred tax asset or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

The accrual method of accounting requires management to incorporate certain estimates, including revenues, royalties, production costs and capital expenditures as at a specific reporting date but for which actual revenue and royalties have not yet been received, and estimates on capital projects that are in progress or recently completed where actual costs have not been received at a specific reporting date.

Business Risks and Risk Management

General

The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Artis attempts to reduce risk in accomplishing these goals through the combination of hiring experienced and knowledgeable personnel and careful evaluation of drilling opportunities.

Certain wells that the Company drills may be deep and may be subject to higher drilling costs than those in more shallow areas. Most wells require fracture treatment before they are capable of production, which also increases costs. Artis mitigates the additional economic pressure that this creates by carefully evaluating risk/reward scenarios for each location, by taking what management considers to be appropriate working interests after considering project risk, by practicing prudent operations so that drilling risk is decreased, by ranking and limiting the zones that the Company is willing to complete, and by drilling deep so that the multi-zone potential of the area can be accessed and potentially developed. In addition, Artis monitors capital spending on an ongoing and regular basis in order to maintain liquidity.

Commodity price fluctuations pose a risk to Artis, and as a result, the Company's management monitors these on an ongoing basis. External factors beyond the Company's control may affect the marketability of the natural gas, crude oil and NGLs produced.

Attracting and retaining qualified individuals is crucial to the Company's success. Artis understands the importance of maintaining competitive compensation levels given the competitive environment in which the Company operates. The inability to attract and retain key employees could have a material adverse effect on the Company.

Artis has selected the appropriate personnel to monitor operations and has automated field information where possible so that operational issues can be assessed and dealt with on a timely basis. The Company, however, is not always the operator, and therefore, not all operational issues are within its control. Management will address them nonetheless and attempt to implement solutions, which may be longer-term by their nature.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and spills, each of which could result in damage to wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company insures against most of these risks (although not all such risks are insurable). Artis maintains liability insurance in an amount that it considers consistent with industry practice, although the nature of these risks is such that liabilities could potentially exceed policy limits. The Company also reduces risk by operating a large percentage of its operations. As such, Artis has control over the quality of work performed and the personnel involved.

The Company's ability to move heavy equipment in the field is dependent on weather conditions. Rain and snow can affect conditions and many secondary roads and future oil and gas production sites are incapable of supporting the weight of heavy equipment until the roads are thoroughly dry. The duration of difficult conditions can have an impact on the Company's activity levels and potentially delay operations.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, and potentially increased capital expenditures and operating costs.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not currently possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition. Artis optimizes its operations with respect to compressor fuel usage and natural gas flaring so that a reduction in emissions is realized.

Royalties

Artis' production is generated from properties within the province of Alberta. As a result, a significant portion of the Company's production is subject to Crown royalties, which are affected directly by the Alberta government royalty programs. Crown royalty rates are subject to change and a change may have a significant impact on Artis' cash flow.

The Alberta Government revised its royalty program in 2016 to the Modern Royalty Framework, which has been favourable to Artis; however, there is a risk that future amendments to the program could have an unfavourable impact on the Company.

Substantial Capital Requirements

Artis anticipates incurring substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce its capital spending. In addition, uncertain levels of near-term industry activity, coupled with the possible global credit crisis, exposes the Company to additional risk. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of Artis to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

Third Party Credit Risk

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production, and other parties. The financial capability of the Company's partners can pose increased risks to Artis, particularly during periods when access to capital is limited and prices are depressed. The Company mitigates the risk of collection by attempting to obtain the partners' share of capital expenditures in advance of a project and by monitoring receivables regularly. Artek also attempts to mitigate risks by cultivating multiple business relationships and obtaining new partners when needed and where possible.

In the event that joint venture partners fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on Artis' business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until Artis finds a suitable alternative partner.

At the present time Artis operates 100% of its capital and operating activities.

Inherent Industry Risks – Risk of Failing to Discover Economic Reserves Additions

The Company's strategies include focusing on selected oil and gas prone areas in Western Canada, utilizing a team of highly qualified professionals with expertise and experience in these areas, expanding operations in core areas, continuously assessing new exploration opportunities to complement existing activities and striving for a balance between higher risk exploratory drilling and lower risk development drilling.

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. Artis minimizes this risk by generating exploration prospects internally, targeting high quality projects and attempting to operate its projects along with access to the sales market through Company owned or mid-stream operators.

Financial, Commodity Price, Capital Expenditures, Liquidity and Environmental Risks

Commodity prices are driven by supply, demand and market conditions outside the Company's influence and control. Artis manages this risk by constantly monitoring the forecasted price given by aggregators. In addition, the Company may employ a commodity hedging program that would have a primary goal of minimizing significant downward movements in commodity prices.

Artis manages capital expenditures by two separate tracking systems: a historical accounting system that records the actual costs and a perpetual forecasting model that is constantly updated based on real-time information. Artis' capital investment process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth in development activities and future cash flow from the discovery of reserves through exploration.

It is likely that in the future, Artis will be required to raise additional capital through debt and equity financings in order to fully realize the Company's strategic goals and business plans. Artis' ability to raise additional capital will depend on a number of factors, such as general economic and market conditions that are beyond the Company's control. If the Company is unable to obtain additional financing or to obtain it on favourable terms, Artis may be required to forego attractive business opportunities. However, as Artis is the operator of virtually all of its operations at a high working interest position, the Company is able to be flexible in the timing of operations to ensure a continued strong financial position. The Company is committed to strengthening its balance sheet combined with an adaptable capital expenditure program that can be adjusted to capitalize on or reflect acquisition opportunities or a tightening of liquidity sources if necessary.

The Company manages operational risks by employing skilled professionals utilizing leading-edge technology and conducting regular maintenance and training programs. Artis has established an Environmental, Health and Safety Management Program and continually updates its operational emergency response plan and operational safety manual to address these operational issues. In addition, a comprehensive insurance program is maintained to mitigate risks and protect against significant losses where possible. Artis operates in accordance with all applicable environmental legislation and strives to maintain compliance with such regulations.