



ARTIS EXPLORATION
LTD

Second Quarter Report
For the Three and Six months Ended
June 30, 2019

ARTIS EXPLORATION LTD.
2019 Second Quarter
For the Three and Six Months Ended June 30, 2019

HIGHLIGHTS

	Three Months Ended June 30			Six months Ended June 30		
	2019	2018	Change	2019	2018	Change
<i>(000s, except per share amounts)</i>	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Financial						
Petroleum and natural gas revenues	30,391	12,428	145	55,548	22,705	145
Funds flow from operations ⁽¹⁾	18,737	9,078	106	34,952	16,239	115
Per share – basic	0.12	0.07	71	0.22	0.12	83
– diluted	0.10	0.06	67	0.20	0.12	67
Net earnings	9,765	3,947	147	15,606	6,775	130
Per share – basic	0.06	0.03	100	0.10	0.05	100
– diluted	0.05	0.03	100	0.09	0.05	80
Net capital expenditures	72,663	42,593	71	128,770	72,217	45
Working capital (deficiency) ⁽²⁾	(43,518)	139,304		(43,518)	139,304	
Shareholders' equity	409,889	379,572	8	409,889	379,572	8
<i>(000s)</i>	(#)	(#)	(%)	(#)	(#)	(%)
Share Data						
At period-end						
Basic	160,197	137,891	16	160,197	137,891	16
Options	12,963	11,523	12	12,963	11,523	12
Warrants	21,765	21,155	3	21,765	21,155	3
Retention awards	308	308	-	308	308	-
Weighted average						
Basic	160,197	137,891	16	160,095	130,496	23
Diluted	178,771	155,583	15	178,668	140,160	27
			(%)			(%)
Operating						
Production						
Crude oil <i>(bbls/d)</i>	4,434	1,656		4,312	1,610	
Natural gas <i>(mcf/d)</i>	3,134	900		2,804	869	
NGLs <i>(bbls/d)</i>	144	46		127	41	
Total <i>(boe/d)</i>	5,101	1,852	175	4,906	1,796	173
Liquids %	90	92		90	92	
Average wellhead prices						
Crude oil <i>(\$/bbl)</i>	73.73	80.57	(8)	69.11	75.80	(9)
Natural gas <i>(\$/mcf)</i>	1.20	1.45	(17)	2.01	1.89	6
NGLs <i>(\$/bbl)</i>	22.65	39.63	(43)	25.87	42.76	(39)
Total <i>(\$/boe)</i>	65.48	73.74	(11)	62.55	69.85	(10)
Royalties <i>(\$/boe)</i>	(5.48)	(4.92)	11	(5.29)	(4.46)	19
Operating cost <i>(\$/boe)</i>	(10.91)	(8.66)	26	(9.91)	(8.27)	20
Transportation cost <i>(\$/boe)</i>	(5.28)	(4.43)	19	(5.26)	(4.52)	16
Operating netback <i>(\$/boe)</i> ⁽³⁾	43.81	55.73	(21)	42.09	52.61	(20)

	Three Months Ended December 31			Years Ended December 31		
	2019	2018	Change (%)	2019	2018	Change (%)
Drilling activity – gross (net)						
Crude oil (#)	6 (6.0)	4 (4.0)		16 (16.0)	7 (7.0)	
Natural gas (#)	-	-		-	-	
Total (#)	6 (6.0)	4 (4.0)		16 (16.0)	7 (7.0)	
Average working interest (%)	100	100		100	100	

(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.

Artis Exploration Ltd. is pleased to report its financial and operating results for the three and six months ended June 30, 2019.

Financial and Operating Highlights

- Second quarter average production rose to a new three-month high of 5,101 boe/d (90% liquids) and was up 175% from the same period last year. Increased six-month average production to 4,906 boe/d (90% liquids), a gain of 173% over 2018.
- Increased funds flow from operations for the three-month period by 106% to \$18.7 million and 67% on a diluted per share basis to \$0.10 per share compared to 2018. For the six-month period funds flow from operations increased 115% to \$35.0 million and 67% on a diluted basis per share basis to \$0.20 per share compared to last year.
- Achieved an operating netback of \$43.81/boe for the second quarter of 2019.
- Increased 2019 six-month net earnings by 130% to \$15.6 million and 80% on a diluted per share basis to \$0.09 per share compared to the previous period.
- Invested \$128.8 million in capital expenditures for the first six months of 2019 resulting in the drilling of 16 (16.0 net) wells in our core area of Trochu, Alberta.

President's Message

The second quarter of 2019 was a strong quarter on the back of a solid oil price of approximately \$60.00/bbl US WTI (\$80/bbl CDN) resulting in a top-tier operating netback of \$43.56/boe and annualized cash flow of approximately \$75 million (versus net debt at quarter end of approximately \$52.7 million).

Production was a little lower than forecast at 5,101 boe/d mainly due to pipeline and facility bottlenecks at our Twinning area Battery which have largely been rectified. Current production is approximately 7,200 boe/d (91% light oil & liquids).

In the first half of 2019, Artis invested approximately \$128 million on expanding its facilities, water storage and the drilling and completing of approximately 16 wells. Artis continues to balance production growth, completion optimization and geographical delineation of its 460 sections of land (owned or under option).

In light of the uncertainty of commodity prices, Artis is taking a more cautious approach going into the back half of 2019. Due to ambiguity around Canadian export pipeline egress and the Federal election outlook as well as the impact on global oil demand resulting from the Chinese/U.S trade tensions, Artis plans to lower its capital investment plans over the remainder of the year by roughly \$20 million to approximately \$232 million. This more conservative short-term investment should see our Company exit at around 8,000-8,500 boe/d and a healthy debt/cash flow ratio of approximately 0.9:1 times based on annualized exit cash flow.

We look forward to reporting our Third Quarter 2019 results in November of this year.

Respectfully,

[signature]

Darryl Metcalfe
President & Chief Executive Officer
September 5, 2019



ARTIS EXPLORATION
LTD

Financial Statements

For the Three and Six months Ended June 30, 2019

ARTIS EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

As at	June 30, 2019	December 31, 2018
<i>(000s)(unaudited)</i>	(\$)	(\$)
Assets		
Current assets		
Cash and cash equivalents	-	64,988
Trade and other receivables	15,407	9,809
Deposits and prepaid expenses	1,817	794
	17,224	75,591
Property, plant and equipment <i>(note 5)</i>	404,504	289,492
Exploration and evaluation assets <i>(note 6)</i>	81,944	77,467
	486,448	366,959
Total assets	503,672	442,550
Liabilities		
Current liabilities		
Accounts payables and accrued liabilities	59,707	37,113
Derivative financial instruments <i>(note 4)</i>	392	-
Provisions <i>(note 8)</i>	231	260
Lease obligations <i>(note 9)</i>	412	-
	60,742	37,373
Bank debt <i>(note 7)</i>	10,222	-
Provisions <i>(note 8)</i>	9,199	5,730
Lease obligations <i>(note 9)</i>	696	-
Deferred tax liability	12,924	9,798
	33,041	15,528
Total liabilities	93,783	52,901
Equity		
Share capital <i>(note 10)</i>	372,361	369,361
Contributed surplus	11,330	9,695
Retained earnings	26,198	10,593
Total equity	409,889	389,649
Total liabilities and equity	503,672	442,550

Commitment *(note 15)*

The notes are an integral part of these condensed interim financial statements.

ARTIS EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
<i>(000s, except per share amounts) (unaudited)</i>	(\$)	(\$)	(\$)	(\$)
Revenue				
Petroleum and natural gas revenues <i>(note 11)</i>	30,391	12,428	55,548	22,705
Royalties	(2,663)	(830)	(4,698)	(1,450)
Unrealized loss on derivative instruments	(58)	-	(392)	-
Other revenue <i>(note 11)</i>	246	501	707	671
	27,916	12,099	51,165	21,926
Expenses				
Operating	5,121	1,557	8,946	2,842
Transportation	2,448	746	4,673	1,468
General and administrative	1,578	699	2,872	1,339
Share-based compensation	736	699	1,168	1,350
Exploration and evaluation	47	133	630	145
Depletion and depreciation	7,258	2,451	13,904	4,712
	17,188	6,285	32,193	11,856
Income from operations	10,728	5,814	18,972	10,070
Finance <i>(note 12)</i>	157	35	240	69
Income before income taxes	10,571	5,779	18,732	10,001
Deferred income tax expense	806	1,832	3,126	3,226
Income and comprehensive income for the period	9,765	3,947	15,606	6,775
Income per share <i>(note 13)</i>				
Basic	0.06	0.03	0.10	0.05
Diluted	0.05	0.03	0.09	0.05

The notes are an integral part of these condensed interim financial statements.

ARTIS EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
<i>(000s)(unaudited)</i>	<i>(#)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Balance – January 1, 2019	159,597	369,361	9,695	10,593	389,649
Issue of common shares <i>(note 10)</i>	600	3,000	-	-	3,000
Share-based payments	-	-	1,635	-	1,635
Income for the period	-	-	-	15,606	15,606
Balance – June 30, 2019	160,197	372,361	11,330	26,198	409,889

	Number of Common Shares	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
<i>(000s)(unaudited)</i>	<i>(#)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Balance – January 1, 2018	123,018	190,865	5,716	(4,225)	192,356
Issue of common shares <i>(note 10)</i>	36,579	182,896	-	-	182,896
Share issue costs, net of tax of \$1,627	-	(4,400)	-	-	(4,400)
Share-based payments	-	-	1,945	-	1,945
Income for the period	-	-	-	6,775	6,775
Balance – June 30, 2018	159,597	369,361	7,661	2,550	379,572

The notes are an integral part of these condensed interim financial statements.

ARTIS EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
<i>(000s)(unaudited)</i>	(\$)	(\$)	(\$)	(\$)
Cash provided by (used in):				
Operating activities				
Income for the period	9,765	3,947	15,606	6,775
Adjustments for:				
Depletion and depreciation <i>(note 5)</i>	7,258	2,451	13,904	4,712
Exploration and evaluation <i>(note 6)</i>	47	133	630	145
Interest on lease obligations <i>(note 9)</i>	23	-	45	-
Unrealized loss on derivative instruments	58	-	392	-
Deferred income taxes	806	1,832	3,126	3,226
Accretion of provisions <i>(note 8)</i>	44	16	81	31
Share-based compensation	736	699	1,168	1,350
Change in non-cash working capital	(692)	2,353	(5,413)	3,219
	18,045	11,431	29,539	19,458
Investing activities				
Property, plant and equipment expenditures <i>(note 5)</i>	(70,862)	(35,813)	(118,130)	(62,868)
Additions to exploration and evaluation assets <i>(note 6)</i>	(1,801)	(6,780)	(7,640)	(9,349)
Change in non-cash working capital	18,591	14,184	21,386	23,920
	(54,072)	(28,409)	(104,384)	(48,297)
Financing activities				
Increase in bank debt	10,222	-	10,222	-
Payments on onerous contract <i>(note 8)</i>	(65)	-	(146)	-
Payments on lease obligations <i>(note 9)</i>	(129)	-	(218)	-
Proceeds from issue of share capital <i>(note 10)</i>	-	182,896	-	182,896
Share issuance costs <i>(note 10)</i>	-	(6,028)	-	(6,028)
	10,028	176,868	9,858	176,868
Change in cash and cash equivalents	(25,999)	159,890	(64,988)	148,029
Cash and cash equivalents – beginning of period	25,999	8,723	64,988	20,584
Cash and cash equivalents – end of period	-	168,613	-	168,613

The notes are an integral part of these condensed interim financial statements.

CONDENSED NOTES TO INTERIM FINANCIAL STATEMENTS

Six Months Ended June 30, 2019

(unaudited)

(Tabular amounts are stated in thousands of dollars, except share and per share amounts)

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 910, 250 5th St. 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

The condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting". The condensed interim financial statements do not include all of the information required for full annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes disclosed in the Company's annual report for the year ended December 31, 2018. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the Company for the year ended December 31, 2018, except as disclosed below. The significant accounting policies are described in note 3 of the December 31, 2018 audited financial statements. These financial statements are presented in Canadian dollars ("CDN"), which is the functional currency of the Company.

The condensed interim financial statements were authorized for issuance by the Company's Board of Directors on September 5, 2019.

The timely preparation of the condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed interim financial statements. The areas of estimation and judgement have not changed from those described in note 2 of the December 31, 2018 audited financial statements.

3. Changes in Accounting Policies

Adoption of IFRS 16 – Leases

On January 1, 2019, the Company adopted IFRS 16 Leases, which replaces IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 uses a single lease accounting model for lessees, which requires the Company to recognize a right-of-use asset and lease liability on the statement of financial position, for all contracts that contain a lease.

The Company adopted IFRS 16 using the modified retrospective approach, and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The cumulative effect of initially applying the standard was recognized through \$1.3 million in right-of-use assets (included in "Property, plant and equipment") and \$1.3 million in Lease obligations. The weighted average incremental borrowing rate used to calculate the lease obligation at adoption was 4.2%. The right-of-use asset and lease obligation relates primarily to the Company's head office lease in Calgary.

The Company applied the following practical expedients as permitted under the standard. Some of these expedients are on a lease-by-lease basis and others are applicable by class of underlying assets:

- Maintain classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- 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;
- 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 the date of transition, with no impact to opening retained earnings.

As at December 31, 2018, the Company had operating lease commitments of \$1.4 million, which would have resulted in a discounted lease obligation of \$1.3 million. At January 1, 2019, the Company recognized a current and non-current lease obligation of \$1.3 million.

As a result of the adoption of IFRS 16 Leases, the Company has revised its accounting policy for leases as follows:

Contracts where the Company obtains the right to control the use of an identified asset in exchange for consideration are determined to contain a lease. At commencement, a right-of-use assets is initially measured at cost, which comprises the initial amount of the lease liability, less any lease incentives received. The right-to-use asset is depreciated on a straight-line basis over the lease term. The corresponding lease liability is equal to the present value of the future lease payments. Interest expense is recognized on the lease obligations using the effective interest rate method. These payments are applied against the lease liability.

The Company is required to make judgements and assumptions on incremental borrowing rates and lease terms. The carrying balance of the right-to-use assets, lease obligations, interest and depreciation expense may differ due to changes in market conditions and expected lease terms. Incremental borrowing rates are based on the Company's borrowing rate at the commencement date of the lease, the security of the asset and market conditions. Lease terms are based on management's assumptions of future market conditions and operational decisions.

4. Financial Risk Management

Derivative contracts

It is the Company's policy to hedge a portion of its crude oil sales through the use of various financial derivative forward sales contracts and physical sales contracts. The Company does not apply hedge accounting for these contracts. 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 sale requirements.

The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the date of the statement of financial position, using the remaining contracted oil volumes and a risk-free interest rate (based on published government rates).

At June 30, 2019, the Company held derivative commodity contracts as follows:

Subject of Contract	Notional Quantity	Term	Reference	Strike Price	Option Traded	Fair Value
(000s) (\$)						
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US\$ MSW – WTI differential	(\$10.75)/bbl	Swap	(415)
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US\$ MSW – WTI differential	(\$10.80)/bbl	Swap	(416)
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US\$ NYMEX – WTI	\$59.35/bbl	Swap	143
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US\$ NYMEX – WTI	\$60.62/bbl	Swap	296
Total						(392)

5. Property, Plant and Equipment

	Oil and Natural Gas Properties
(000s) (\$)	
Cost or deemed cost	
Balance – December 31, 2018	311,007
Additions	121,130
Capitalized share-based compensation	467
Increase in right-to-use assets	1,281
Transfer from exploration and evaluation assets	2,533
Change in decommissioning obligations	3,505
Balance – June 30, 2019	439,923
Depletion and depreciation	
Balance – December 31, 2018	21,515
Depletion and depreciation for the period	13,904
Balance – June 30, 2019	35,419
Carrying amounts	
June 30, 2019	404,504
December 31, 2018	289,492

Depletion and Depreciation

The calculation of 2019 depletion and depreciation expense included an estimated \$1.8 billion (2018 – \$1.0 billion) for future development costs associated with proved plus probable undeveloped reserves and excluded \$0.9 million (2018 – \$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 earnings.

Capitalization of G&A and Share-Based Compensation

A total of \$1.6 million in G&A expenditures have been capitalized and included in PP&E assets at June 30, 2019 (2018 – \$0.7 million). Also included in PP&E are non-cash share-based payments of \$0.5 million (2018 – \$0.6 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At June 30, 2019, the Company determined that no indicators of impairment existed on its one CGU, therefore, no impairment test was performed.

6. Exploration and Evaluation Assets

<i>(000s)</i>	<i>(\$)</i>
Cost	
Balance – December 31, 2018	77,467
Additions	7,640
Transfers to property, plant and equipment	(2,533)
Impairments	(630)
Balance – June 30, 2019	81,944

Exploration and evaluation assets consist of the Company's exploration projects that are pending the determination of proved or probable reserves. Additions in the period are primarily made up of undeveloped land purchases and seismic acquisitions. Impairments relate to undeveloped land expiries.

7. Bank Debt

At June 30, 2019, the Company had a revolving line of credit of \$160 million and an operating line of credit of \$20 million for a total facility of \$180 million (the "Facility"). The Facility revolves for a 364 day period and will be subject to its next 364 day extension by May 31, 2020. If not extended, the Facility will cease to revolve, the margins thereunder will increase by 0.50 per cent and all outstanding advances thereunder will become repayable in one year from the extension date. The available lending limits of the Facility (the "Borrowing Base") are reviewed semi-annually and are based on the bank syndicate's interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount of the available Facility will not be adjusted at the next scheduled Borrowing Based review on or before November 30, 2019. The Facility is secured by a \$400 million fixed and floating charge debenture.

Advances under the Facility are available by way of prime rate loans with interest rates ranging between 0.50 percent and 2.50 percent over the bank's prime lending rate and bankers' acceptances and LIBOR loans, which are subject to stamping fees and margins ranging from 1.50 percent to 3.50 percent depending upon the net debt to cash flow ratio of the Company as calculated at the Company's previous quarter end. Standby fees are charged on the undrawn Facility at rates ranging from 0.3375 percent to 0.7875 percent depending upon the net debt to cash flow ratio.

8. Provisions

Six months ended June 30,	2019	2018
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Decommissioning obligations (a)	9,046	3,965
Onerous contract (b)	384	-
Total provisions	9,430	3,965

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

Three months ended March 31,	2019	2018
(000s)	(\$)	(\$)
Current portion	231	-
Long term portion	9,199	3,965
Total provisions	9,430	3,965

(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 \$9.0 million as at June 30, 2019 (2018 – \$4.0 million) based on an undiscounted inflated total future liability of \$11.6 million (2018 – \$5.0 million) using an assumed inflation rate of 2% (2018 – 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 1.9% (2018 – 1.8%).

The following table reconciles the Company's decommissioning obligations for the periods ended June 30, 2019 and 2018:

Six months ended June 30,	2019	2018
(000s)	(\$)	(\$)
Balance – beginning of year	5,468	3,222
Liabilities incurred	3,505	712
Accretion of decommissioning obligation	73	31
Balance – end of period	9,046	3,965

(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 periods ended June 30, 2019 and 2018:

Three months ended March 31,	2019	2018
(000s)	(\$)	(\$)
Balance – beginning of year	522	-
Payments	(146)	-
Accretion of onerous contract	8	-
Balance – end of period	384	-

9. Lease obligations

	As at June 30, 2019
(000s)	(\$)
Less than 1 year	517
1 – 3 years	711
Total undiscounted future lease payments	1,228
Future interest payments	(120)
Current portion of lease obligations	(412)
Long-term portion of lease obligations	696

10. 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, 2017	123,018	190,865
Issue of common shares	36,579	182,896
Share issue cost	-	(6,028)
Tax benefit of share issue cost	-	1,627
Balance – December 31, 2018	159,597	369,361
Issue of common shares	600	3,000
Balance – June 30, 2019	160,197	372,361

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 February 6, 2019, Artis acquired undeveloped land in the Company's core Trochu area along with one oil well producing approximately 50 boe/d for total consideration of \$5.4 million which consisted of 600,000 common shares and \$2.4 million in cash.

11. Revenue

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

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Oil production	29,751	12,144	53,930	22,090
Gas production	343	119	1,022	298
NGLs production	297	165	596	317
Total revenue	30,391	12,428	55,548	22,705

Other revenue:

The following table summarizes the Corporation's other revenue:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Third party processing income	58	98	142	156
Interest income	188	403	565	515
	246	501	707	671

12. Finance Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Interest expense	113	19	159	38
Accretion of provisions	44	16	81	31
Finance expenses	157	35	240	69

13. Income Per Share

Basic income per share was calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(#)	(#)	(#)	(#)
Weighted average number of common shares – basic				
Issued common shares				
– beginning of period	160,197	123,018	159,597	123,018
Effects of shares issued	-	14,873	498	7,778
Weighted average number of common shares – basic	160,197	137,891	160,095	130,496

Diluted earnings per share was calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(#)	(#)	(#)	(#)
Weighted average number of common shares – basic	160,197	137,891	160,095	130,496
Effects of options in-the-money	18,574	17,692	18,573	9,664
Weighted average number of common shares – diluted	178,771	155,583	178,668	140,160

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.

14. 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 retention awards 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 June 30, 2019.

At June 30, 2019, the Company has 12,963,000 options outstanding with an average exercise price of \$2.04 per share. The weighted average contractual life is 2.8 years. At June 30, 2019, 7,470,333 million options are exercisable.

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

Exercise Price	Performance Warrants	Weighted Average Exercise Price	Weighted Average Contractual Life
(\$)	(#000s)	(\$)	(years)
1.88	4,353	1.88	2.0
2.19	4,353	2.19	2.0
2.50	4,353	2.50	2.0
2.81	4,353	2.81	2.0
3.13	4,353	3.13	2.0
	21,765	2.50	2.0

The Company has 307,500 RAs outstanding at June 30, 2019.

15. Commitment

The Company has a drilling rig contract whereby the Company is committed to use the rig for a minimum number of days otherwise a standby fee is charged. The minimum commitment for the remainder of 2019 is \$0.5 million.

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 three and six months ended June 30, 2019 and 2018 and should be read in conjunction with the accompanying unaudited financial statements and related notes and the audited financial statements and related notes for the year ended December 31, 2018. All financial measures are expressed in Canadian dollars unless otherwise indicated. This commentary is based on the information available as at and is dated September 5, 2019.

Basis of Presentation

The unaudited financial statements and comparative information for the three and six months ended June 30, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard 34 – "Interim Financial Reporting".

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" and "operating 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 and operating 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. Per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

Funds Flow from Operations

One of the benchmarks that Artis uses to evaluate its performance is funds from operations. Funds from operations is a measure not defined under IFRS but is commonly used in the oil and gas industry. Funds from operations represents cash provided by operating activities before changes in operating non-cash working capital. The Company considers this metric to be a key measure that demonstrates the ability of the Company's continuing operations to generate the cash flow necessary to maintain production at current levels and fund future growth through capital investment and to service and repay debt. Management believes that this measure provides an insightful assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges. Funds from operations should not be considered as an alternative to or more meaningful than cash provided by operating activities as determined in accordance with IFRS as an indicator of the Company's performance. Artis' determination of funds from operations may not be comparable to that reported by other companies. The following table reconciles cash provided by operating activities to funds from operations:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Net cash from operating activities	18,045	11,431	29,539	19,459
Changes in non-cash working capital	692	(2,353)	5,413	(3,219)
Funds flow from operations	18,737	9,078	34,952	16,239

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 fluctuations; 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"). Artis changed its year-end from September 30 to December 31. 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 three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Crude oil (bbls/d)	4,434	1,656	4,312	1,610
Natural gas (mcf/d)	3,134	900	2,804	869
NGLs (bbls/d)	144	46	127	41
Total (boe/d)	5,101	1,852	4,906	1,796
Liquids (%)	90	92	90	92

For the three months ended June 30, 2019, production averaged 5,101 boe/d (90% weighted to crude oil and NGLs), a 175% increase from the 1,852 boe/d (92% weighted to crude oil and NGLs) averaged during the same period a year ago.

During the six months ended June 30, 2019, Artis' production increased 173% to average 4,906 boe/d versus 1,796 boe/d a year ago. During the first half of 2019, production consisted of 4,439 bbls/d of crude oil and NGLs and 2,804 mcf/d of natural gas. Liquids production was 90% of total production.

The increase for both periods was a result of 16 (14.5 net) wells that were drilled in the second half of 2018 at Trochu, Alberta which came on production in 2019.

Revenue and Pricing

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Revenue				
Crude oil	29,751	12,144	53,930	22,090
Natural gas	343	119	1,022	298
NGLs	297	165	596	317
Total revenue before unrealized financial derivative loss	30,391	12,428	55,548	22,705
Unrealized financial derivative loss	(58)	-	(392)	-
Total revenue	30,333	12,428	55,156	22,705

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Average Prices				
Crude oil (\$/bbl)	73.73	80.57	69.11	75.80
Natural gas (\$/mcf)	1.20	1.45	2.01	1.89
NGLs (\$/bbl)	22.65	39.63	25.87	42.76
Total sales price (\$/boe)	65.48	73.74	62.55	69.85

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

During the second quarter of 2019, revenue increased 144% to \$30.3 million from \$12.4 million recorded in the same period of 2018 due to a 175% year-over-year increase in production which was partially offset by a 11% decrease in the Company's overall realized price compared to the previous period. The Company's overall realized price decreased to \$65.48/boe from \$73.74/boe recorded in 2018 mainly as a result of lower crude oil prices.

For the first six months of 2019, revenue increased 143% to \$55.2 million from \$22.7 million in the same period last year due primarily to a 173% increase in production which was again partially offset by a decrease in the overall realized price. The Company's overall realized price decreased 10% to \$62.55/boe from \$69.85/boe a year ago mainly as a result of lower crude oil prices.

The following table summarizes the natural gas and crude oil benchmark prices for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Average Benchmark Prices				
Crude oil – WTI (US\$/bbl)	59.81	67.88	57.36	65.37
MSW (Edm) differential (US\$/bbl)	(4.63)	(5.45)	(4.75)	(5.67)
Crude oil – MSW (Edm) par (CDN\$/bbl)	73.60	80.76	69.99	76.47
Natural gas – AECO spot				
Daily index (CDN\$/GJ)	0.98	1.12	1.73	1.54

Exchange rate (CDN\$/US\$)	1.34	1.29	1.33	1.28
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Artis has been receiving close to posted Edmonton par prices for its crude oil volumes.

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 fluctuations 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.

These contracts had the following impact on the condensed interim statements of income and comprehensive income:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Realized loss on financial instruments	-	-	-	-
Per boe	-	-	-	-
Unrealized loss on financial instruments	(58)	-	(392)	-

The Company held the following derivative commodity contracts at June 30, 2019:

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	\$60.62/bbl	Swap
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US\$ NYMEX – WTI	\$59.35/bbl	Swap

Royalties

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Royalties				
Crown	1,446	541	2,513	975
Freehold/GORR	1,217	289	2,185	474
Total royalties	2,663	830	4,698	1,450
Total royalties (\$/boe)	5.74	4.92	5.29	4.46
	(%)	(%)	(%)	(%)
% of Revenue				
Crown	4.8	4.4	4.5	4.3

Freehold/GORR	4.0	2.3	3.9	2.1
Total	8.8	6.7	8.5	6.4

For the quarter ended June 30, 2019, the Company recorded \$2.7 million in total royalties or 8.8% of revenue versus \$0.8 million or 6.7% of revenue a year ago. Approximately 4.8% of total revenue paid in the second quarter of 2019 consisted of Crown royalties and 4.0% of total revenue was paid to overriding and freehold royalty owners ("GORRs") compared to 4.4% and 2.3%, respectively, in the 2018 three-month period.

For the first half of 2019, total royalties were \$4.7 million or 8.5% of revenue versus \$1.5 million or 6.4% of revenue a year ago.

Freehold/GORR royalties as a percentage of total revenue increased in 2019 compared to 2018 as the Company drilled more of its 2018 and 2019 wells on freehold lands which has a higher royalty percentage compared to crown lands.

Operating Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Operating expenses	5,121	1,557	8,946	2,842
Less: Third party processing income	(58)	(98)	(142)	(156)
Net operating expenses	5,063	1,459	8,804	2,686
Per unit of production (\$/boe)	10.91	8.66	9.91	8.27

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 labor, equipment rentals, fuel and power as well as emulsion/oil treating charges.

Operating costs net of third-party processing income were \$5.1 million for the second quarter of 2019 compared to \$1.5 million recorded a year ago. Operating costs net of third-party processing income on a per boe basis increased 26% to \$10.91/boe from \$8.66/boe in 2018. For the first six months of 2019, operating costs were \$8.8 million or \$9.91/boe compared to \$2.7 million or \$8.27/boe in the same period of 2018.

Operating costs on a per boe basis increased in 2019 due to increased charges for water hauling, salt-water disposal fees, treating and trucking of emulsion and increased use of chemicals. As local area water disposal capacity has decreased, Artis has had to truck its water further than historically. The Company is planning for long term water disposal in 2020 which should start reducing water trucking and disposal costs next year.

Transportation Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Transportation expenses	2,448	746	4,673	1,468
Transportation expenses (\$/boe)	5.28	4.43	5.26	4.52

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 June 30, 2019, transportation costs rose to \$2.4 million or \$5.28/boe from \$746,000 or \$4.43/boe last year. For the first six months of 2019, transportation costs were \$4.7 million or \$5.26/boe versus \$1.5 million or \$4.52/boe a year ago. The increase for both periods was because of 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 June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Revenue				
Crude oil (\$/bbl)	73.73	80.57	69.11	75.80
Natural gas (\$/mcf)	1.20	1.45	2.01	1.89
NGLs (\$/bbl)	22.65	39.63	25.87	42.76
Production revenue (\$/boe) ⁽¹⁾	65.48	73.74	62.55	69.85
Expenses				
Royalties (\$/boe)	(5.74)	(4.92)	(5.29)	(4.46)
Operating (\$/boe)	(10.91)	(8.66)	(9.91)	(8.27)
Transportation (\$/boe)	(5.28)	(4.43)	(5.26)	(4.52)
Operating netback (\$/boe)	43.56	55.73	42.09	52.61

For the second quarter of 2019, the Company recorded an operating netback of \$43.56/boe compared to \$55.73/boe in the same quarter last year. The 22% decrease was primarily a result of crude oil prices falling 8% from second quarter 2018 levels and a 26% increase in operating costs and a 19% increase in transportation costs and a 17% increase in royalty costs.

During the six months ended June 30, 2019, Artis' operating netback was \$42.09/boe versus \$52.61/boe in the same period of 2018. The 20% increase was again due to lower crude oil prices along with higher operating, transportation and royalty costs.

General and Administrative ("G&A") Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Gross expenses	2,734	1,043	4,649	2,000
Capitalized expenses	(1,081)	(328)	(1,631)	(328)
Operator's recoveries	(75)	(16)	(146)	(333)
General and administrative expenses	1,578	699	2,872	1,339
Per unit of production (\$/boe)	\$3.40	\$4.15	\$3.23	\$4.12

For the three months ended June 30, 2019, G&A expenses totaled \$1.6 million compared to \$0.7 million recorded in the same period a year ago. For the periods ended June 30, 2019 and 2018, the Company capitalized G&A and had recoveries from operations totaling \$1.2 million and \$0.3 million, respectively, with regards to administrative overhead and employee compensation directly related to exploration and development activities. G&A expenses decreased 18% on a per unit of production basis because of the 175% increase in production during the period.

For the six months ended June 30, 2019, G&A expenses totaled \$2.9 million compared to \$1.3 million recorded in the same period a year ago. For the periods ended June 30, 2019 and 2018, the Company capitalized \$1.8 million and \$0.7 million, respectively, with regards to administrative overhead and employee compensation directly related to exploration and development activities. G&A expenses rose 132% on a gross basis because of increases in staff levels and salaries to manage a growing Company and employee bonuses amounting to \$1.4 million but fell 22% on a per unit of production basis because of the 173% increase in production during the period.

Share-Based Compensation Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Gross expenses	999	1,006	1,634	1,945
Capitalized expenses	(263)	(307)	(466)	(595)
Total share-based compensation	736	699	1,168	1,350

For the three months ended June 30, 2019, Artis recorded non-cash share-based compensation expense of \$0.7 million compared to \$0.7 million for the previous period. For the periods ended June 30, 2018 and 2017, the Company capitalized \$0.3 million and \$0.3 million, respectively of stock-based compensation relating to stock options of employees directly related to exploration and development activities.

The Company had non-cash share-based compensation expense of \$1.2 million for the first six months of 2019 (2018 – \$1.4 million) which was net of capitalized stock-based compensation of \$0.5 million (2018 - \$0.6 million). The decrease for the six-month period related to fewer stock options being issued in the first quarter of 2019 as compared to 2018.

Finance Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
Standby fees on credit facility	90	19	114	38
Interest expense on lease obligations	23	-	45	-
Accretion of decommissioning obligations	40	16	73	31
Accretion of the onerous contract	4	-	8	-
Finance expenses	157	35	240	69

The Company did not incur any interest expenses on its credit facility in 2019 or 2018. Standby fees of \$114,000 (2018 - \$38,000) were incurred on the Company's credit facility for the six-month period. The standby fees increased because the size of the credit facility increased from \$65 million to \$180 million in mid-May.

There was no interest expense on lease obligations for the prior period as the Company adopted IFRS 16 at January 1, 2019 as per note 3 to the June 30, 2019 financial statements.

The Company's accretion expense for the three-month period ended June 30, 2019 was \$40,000 versus \$16,000 in the comparable period of 2018 and \$73,000 for the six-month period ended June 30, 2019 as compared to \$31,000 for the prior period. The larger accretion expense relates to the increase in the decommissioning obligations due to the 16.0 net wells drilled in the first half of 2019 as compared to the 7.0 net wells drilled in the first half of 2018.

Depletion and Depreciation ("D&D") Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
(000s)	(\$)	(\$)	(\$)	(\$)
D&D expense	7,258	2,451	13,904	4,712
D&D expense (\$/boe)	15.64	14.54	15.66	14.50

The Company's D&D expense for the six months ended June 30, 2019 was \$13.9 million or \$15.66/boe versus \$4.7 million or \$14.50/boe in the comparable period of 2018.

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 2019 depletion and depreciation expense included an estimated \$1.8 billion (2018 – \$1.0 billion) for future development costs associated with proved plus probable undeveloped reserves and excluded \$0.9 million (2018 – \$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 six months ended June 30, 2019, Artis recorded an exploration and evaluation expense of \$630,000 versus \$145,000 a year ago. Exploration and evaluation expenses relate mainly to undeveloped land expiries.

Deferred Income Taxes

For the second quarter and the first half of 2019, Artis recorded a deferred income tax expense of \$0.8 million and \$3.1 million, respectively, compared to \$1.8 million and \$3.2 million, respectively, for the same periods in 2018. The reduction in the deferred income tax expense in the second quarter of 2019 relates to the reduction of the Alberta corporate tax rate from 12% to 8% by 2022, which was substantially enacted as at June 30, 2019 with an effective date of July 1, 2019.

Artis was not subject to any corporate income taxes for 2019 or 2018. The Company has approximately \$416 million of income tax pools available for deduction against future taxable income as at June 30, 2019.

Cash, Funds Flow from Operations and Net Income

	Three Months Ended June 30		Six months Ended June 30	
	2019	2018	2019	2018
<i>(000s, except per share amounts)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Cash provided by operating activities	18,045	11,431	29,736	19,459
Funds flow from operations	18,737	9,078	34,952	16,239
Per share ⁽¹⁾ – basic	0.12	0.07	0.22	0.12
– diluted	0.10	0.06	0.20	0.12
Net income	9,765	3,947	15,606	6,775
Per share – basic	0.06	0.03	0.10	0.05
– diluted	0.05	0.03	0.09	0.05

(1) Funds flow from operations per share has been calculated using the same denominator as was used in calculating net earnings (loss) per share.

In the second quarter and the first half of 2019, cash provided by operating activities, funds flow and net income all increased predominately due to higher production volumes as compared to the same period in 2018.

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

During the second quarter of 2019, the Company invested \$72.7 in total capital expenditures, which included capital expenditures on exploration and evaluation assets as well as property, plant and equipment, compared to \$42.6 million a year ago.

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
<i>(000s)(excluding decommissioning liabilities and capitalized share-based compensation)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Drilling and completions	54,805	30,549	91,000	53,083
Equipment and facilities	12,620	4,786	25,686	8,937
Geological and geophysical	2,145	672	2,494	672
Land and lease retention	1,980	6,256	7,867	8,849
Capitalized G&A and other	1,113	330	1,723	676
Total capital expenditures	72,663	42,593	128,770	72,217

During the second quarter of 2019, the Company incurred \$54.8 million (2018 – \$30.5 million) in drilling and completion expenditures that involved the drilling of 6 (6.0 net) horizontal crude oil wells and the completion of 11 (11.0 net) horizontal oil wells as compared to the drilling and completion of 4 (4.0 net) wells during the second quarter of 2018. Equipping and facilities expenditures for the three months ended June 30, 2018 and 2017 were \$12.6 million and \$4.8 million, respectively. During the 2019 three-month period, the Company invested \$4.1 million on land and seismic versus \$6.9 million for the same period of 2018.

Drilling and completion expenditures totaled \$91.0 million for the six months ended June 30, 2019, (2018 – \$53.1 million) that involved participation in 16 (16.0 net) horizontal wells versus 7 (7.0 net) horizontal wells during the first half of 2018. Equipping and facilities expenditures for the six months ended June 30, 2019 and 2018 were \$25.7 million and \$8.9 million, respectively. During the 2019 six-month period, the Company invested \$10.4 million on land and seismic versus \$9.5 million for the same period of 2018.

Drilling Activity

	Total	
	Gross (#)	Net (#)
Six Months Ended June 30, 2019		
Crude oil (horizontal)	16	16.0
Total wells	16	16.0
Average working interest (%)		100
Six Months Ended June 30, 2018		
Crude oil (horizontal)	7	7.0
Total wells	7	7.0
Average working interest (%)		100

Share Capital

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
<i>(000s)</i>	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>	<i>(#)</i>
Weighted Average Shares Outstanding				
Basic	160,197	137,891	160,095	130,496
Diluted	178,771	144,706	178,668	135,187

Outstanding Securities

Common shares	160,197	159,597	160,197	159,597
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Performance warrants	21,765	21,155	21,765	21,155
Options	12,963	11,523	12,963	11,523
Retention awards	308	308	308	308

As at September 5, 2019, Artis had 160,197,381 common shares and 12,963,000 stock options with an average exercise price of \$2.04 per share and 21,765,000 share purchase 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 accounts payable and accrued liabilities and bank debt. 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 and the Company's \$180 million credit facility. 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 six-month periods ended June 30:

	2019	2018
<i>(000s)</i>	<i>(\$)</i>	<i>(\$)</i>
Working capital – beginning of year	38,217	18,413
Funds flow from operations	34,952	16,239
Issue of share capital for cash, net of share issue costs	-	176,868
Capital expenditures	(125,770)	(72,217)
Increase in long term bank debt	10,222	-
Increase in current portion of lease obligations, derivative contracts and onerous contract plus actual payments	(1,139)	-
Working capital (deficiency) – end of period	(43,518)	139,304

Commitment

The Company has a drilling rig contract whereby the Company is committed to use the rig for a minimum number of days otherwise a standby fee is charged. The minimum commitment for the remainder of 2019 is \$0.5 million.

Off-Balance Sheet Transactions

There were no off-balance sheet transactions entered into during the period, nor were there any outstanding as of the date of this MD&A.

Selected Quarterly Information

Below is summarized quarterly information for the previous eight quarters.

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
<i>(000s, except per share amounts)</i> <i>(unaudited)</i>	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Petroleum and natural gas revenues	5,218	8,483	10,277	12,428	18,287	16,501	25,157	30,391
Funds flow from operations	3,514	6,287	7,162	9,078	14,005	9,725	16,134	18,737
Per share ⁽¹⁾ – basic	0.04	0.06	0.06	0.07	0.09	0.06	0.10	0.12
– diluted	0.04	0.05	0.06	0.06	0.08	0.05	0.09	0.10
Net income	716	2,168	2,828	3,947	6,817	1,225	5,840	9,765
Per share – basic	0.01	0.02	0.02	0.03	0.04	0.01	0.04	0.06
– diluted	0.01	0.02	0.02	0.03	0.04	0.01	0.03	0.05
Weighted average shares								
Basic	91,015	114,044	123,018	137,891	159,597	159,597	159,991	160,197
Net capital expenditures	27,531	63,997	29,624	42,593	66,356	58,200	56,107	72,663
Working capital (deficiency) ⁽²⁾	38,943	18,412	(4,050)	139,304	86,952	38,217	500	(43,518)
Shareholders' equity	152,240	192,356	196,123	379,572	387,406	389,649	399,124	409,889
Production								
Crude oil (bbls/d)	985	1,337	1,563	1,656	2,381	4,284	4,188	4,434
Natural gas (mcf/d)	367	488	837	900	1,263	2,263	2,470	3,134
NGLs (bbls/d)	9	11	36	46	60	109	110	144
Total (boe/d)	1,055	1,429	1,739	1,852	2,651	4,771	4,710	5,101
Liquids (%)	94	94	92	92	92	92	91	90
Average wellhead prices								
Crude oil (\$/bbl)	56.61	67.86	70.69	80.57	81.56	40.02	64.15	73.73
Natural gas (\$/mcf)	1.74	1.99	2.38	1.45	1.59	1.83	3.05	1.20
NGLs (\$/bbl)	34.90	47.48	46.77	39.63	43.65	34.24	30.14	22.65
Total (\$/boe)	53.76	64.53	65.67	73.74	74.98	37.59	59.35	65.48
Royalties (\$/boe)	(2.94)	(3.70)	(3.96)	(4.92)	(5.31)	(2.64)	(4.80)	(5.48)
Operating costs (\$/boe)	(5.26)	(5.34)	(7.84)	(8.66)	(7.76)	(7.04)	(8.83)	(10.91)
Transportation costs (\$/boe)	(4.30)	(4.24)	(4.61)	(4.43)	(4.97)	(5.48)	(5.25)	(5.28)
Operating netback (\$/boe)	41.27	51.25	49.25	55.73	56.94	22.44	40.47	43.81

(1) Funds flow from operations per share has been calculated using the same denominator as was used in calculating net earnings (loss) per share.

(2) Current assets less current liabilities.

New Accounting Pronouncements

Adoption of IFRS 16 – Leases

On January 1, 2019, the Company adopted IFRS 16 Leases, which replaces IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 uses a single lease accounting model for lessees, which requires the Company to recognize a right-of-use asset and lease liability on the statement of financial position, for all contracts that contain a lease.

The Company adopted IFRS 16 using the modified retrospective approach, and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The cumulative effect of initially applying the standard was recognized through \$1.3 million in right-of-use assets (included in

“Property, plant and equipment”) and \$1.3 million in Lease obligations. The weighted average incremental borrowing rate used to calculate the lease obligation at adoption was 4.2%. The right-of-use asset and lease obligation relates primarily to the Company’s head office lease in Calgary.

The Company applied the following practical expedients as permitted under the standard. Some of these expedients are on a lease-by-lease basis and others are applicable by class of underlying assets:

- Maintain classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- 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;
- 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 the date of transition, with no impact to opening retained earnings.

As at December 31, 2018, the Company had operating lease commitments of \$1.4 million, which would have resulted in a discounted lease obligation of \$1.3 million. At January 1, 2019, the Company recognized a current and non-current lease obligation of \$1.3 million.

As a result of the adoption of IFRS 16 Leases, the Company has revised its accounting policy for leases as follows:

Contracts where the Company obtains the right to control the use of an identified asset in exchange for consideration are determined to contain a lease. At commencement, a right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, less any lease incentives received. The right-to-use asset is depreciated on a straight-line basis over the lease term. The corresponding lease liability is equal to the present value of the future lease payments. Interest expense is recognized on the lease obligations using the effective interest rate method. These payments are applied against the lease liability.

The Company is required to make judgements and assumptions on incremental borrowing rates and lease terms. The carrying balance of the right-to-use assets, lease obligations, interest and depreciation expense may differ due to changes in market conditions and expected lease terms. Incremental borrowing rates are based on the Company’s borrowing rate at the commencement date of the lease, the security of the asset and market conditions. Lease terms are based on management’s assumptions of future market conditions and operational decisions.

Critical Estimates

Certain of the Company’s accounting policies require subjective judgement about uncertain circumstances. The potential effects of these estimates, as described in the Company’s MD&A for the year ended December 31, 2018, have not changed during the current period. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.