ARTIS EXPLORATION LTD

THIRD QUARTER REPORT

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2019

ARTIS EXPLORATION LTD.

2019 Third Quarter
For the Three and Nine Months Ended September 30, 2019

HIGHLIGHTS

	Three Months Ended September 30			Nine months Ended September 30		
	2019	2018	Change	**2019**	2018	Change
(000s, except per share amounts)	*($)*	*($)*	*(%)*	*($)*	*($)*	*(%)*
Financial						
Petroleum and natural gas revenues	**35,139**	18,287	92	**90,687**	40,992	121
Funds flow from operations [(1)]	**21,430**	14,005	53	**56,382**	30,244	86
Per share – basic	**0.13**	0.09	44	**0.35**	0.22	59
– diluted	**0.12**	0.08	50	**0.32**	0.21	43
Net earnings	**9,856**	6,817	45	**25,462**	13,592	87
Per share – basic	**0.06**	0.04	50	**0.16**	0.10	60
– diluted	**0.06**	0.04	50	**0.14**	0.09	56
Net capital expenditures	**72,752**	66,356	10	**201,522**	138,573	45
(000s)	*(#)*	*(#)*	*(%)*	*(#)*	*(#)*	*(%)*
Capital Structure						
Working capital deficiency (surplus) [(2)]	**38,523**	(86,952)		**38,523**	(86,952)	
Bank debt	**65,662**	-		**65,662**	-	
Total Net Debt (surplus) [(2)]	**104,185**	(86,952)		**104,185**	(86,952)	
Current Debt Capacity [(3)]	**180,000**	65,000	177	**180,000**	65,000	177
Shareholders' equity	**420,776**	387,406	9	**420,776**	387,406	9
(000s)	*(#)*	*(#)*	*(%)*	*(#)*	*(#)*	*(%)*
Share Data						
At period-end						
Basic	**160,197**	159,597	-	**160,197**	159,597	-
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**	159,597	-	**160,129**	140,303	14
Diluted	**178,860**	166,616	7	**178,792**	145,721	23
			(%)			*(%)*
Operating						
Production						
Crude oil *(bbls/d)*	**5,374**	2,381	125	**4,670**	1,870	150
Natural gas *(mcf/d)*	**3,927**	1,263	210	**3,182**	1,002	218
NGLs *(bbls/d)*	**278**	60	363	**178**	47	279
Total *(boe/d)*	**6,307**	2,651	138	**5,378**	2,084	158
Liquids %	**90**	92		**90**	92	
Average wellhead prices						
Crude oil *($/bbl)*	**68.76**	81.56	(16)	**68.97**	78.27	(12)
Natural gas *($/mcf)*	**1.09**	1.59	(31)	**1.63**	1.77	(8)
NGLs *($/bbl)*	**17.05**	43.65	(61)	**21.22**	43.14	(49)
Total *($/boe)*	**60.01**	74.98	(20)	**61.55**	72.05	(15)
Royalties *($/boe)*	**(5.79)**	(5.31)	9	**(5.49)**	(4.83)	14
Operating cost *($/boe)*	**(9.58)**	(7.76)	23	**(9.78)**	(8.05)	21
Transportation cost *($/boe)*	**(5.01)**	(4.97)	1	**(5.16)**	(4.18)	23
Operating netback *($/boe)* [(4)]	**39.63**	56.94	(30)	**41.12**	54.47	(25)

	Three Months Ended December 31			Years Ended December 31		
	2019	2018	Change	**2019**	2018	Change
			(%)			*(%)*
Drilling activity – gross (net)						
Crude oil *(#)*	**7 (7.0)**	10 (9.0)		**23 (23.0)**	17 (16.0)	
Natural gas *(#)*	**-**	-		**-**	-	
Total *(#)*	**7 (7.0)**	10 (9.0)	(22)	**23 (23.0)**	17 (16.0)	(22)
Average working interest *(%)*	**100**	90		**100**	94	

(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) Non-IFRS Measure. Working capital (deficiency) includes cash and cash equivalents plus trade and other receivables and deposits and prepaid expenses less accounts payable and accrued liabilities. See "Non-IFRS Measures" contained within Artis' MD&A.

(3) Current Debt Capacity reflects the bank facility in place.

(4) 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 nine months ended September 30, 2019.

Financial and Operating Highlights

- Third quarter average production rose to a new three-month high of 6,307 boe/d (90% liquids) and was up 138% from the same period last year. Increased nine-month average production to 5,378 boe/d (90% liquids), a gain of 158% over 2018.
- Increased funds flow from operations for the three-month period by 53% to $21.4 million and 50% on a diluted per share basis to $0.12 per share compared to 2018. For the nine-month period, funds flow from operations increased 86% to $56.4 million and 43% on a diluted basis per share basis to $0.32 per share compared to last year.
- Achieved an operating netback of $39.63/boe for the third quarter of 2019.
- Increased 2019 nine-month net earnings by 87% to $25.5 million and 56% on a diluted per share basis to $0.14 per share compared to the previous period.
- Invested $201.5 million in capital expenditures for the first nine months of 2019 resulting in the drilling of 23 (23.0 net) wells in our core area of Trochu, Alberta.

President's Message

During the third quarter of 2019, Artis realized record production levels and cash flow levels (138% and 53% higher than the same period last year respectively). Current production is approximately 8,000 boe/d (90% liquids) based on field estimates. Artis targets exiting the year at a very healthy 1.1 times net debt to forward funds flow ratio based on forecasted annualized fourth quarter funds flow and forecasted year-end debt.

During the quarter Artis continued to delineate its resource base and optimize drilling and completion design parameters. The Company has achieved best in play all-in well costs of approximately $6 million on 1.5 mile multi-well pads in 2019. Artis conducted an exhaustive "look-back" on its historical well testing and results this year, which led to significant progress on well performance in the latter half of 2019. Through a combination of increased frac effort and pump rates, and optimization of both fluid viscosity and frac energy distribution the Company has realized some of its best test results to date. Our last eight tests realized day rates of 660-918 bbls of oil per day at 5,387-10,048 kpa flowing pressures over test periods ranging from 9-21 days. These are consistent with our approximate top 15 percent of historical results realized.

As noted last quarter, Artis reduced its 2019 capital expenditures by approximately $20 million while we observe key macro-economic conditions in the Canadian Energy environment. The Company will take a similarly cautious approach to 2020, where it anticipates drilling 18-24 wells in a 2nd half biased 2020 program, while we observe commodity price activity, progress on Canadian pipeline egress, and egress related differentials on Canadian oil prices. The program will be focused on development drilling and further well performance enhancement.

We look forward to reporting on our progress and 2019 year-end results in the New Year.

Respectfully,

[signature]

Darryl Metcalfe
President & Chief Executive Officer

November 29, 2019

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 nine months ended September 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 November 20, 2019.

Basis of Presentation

The unaudited financial statements and comparative information for the three and nine months ended September 30, 2019 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 term "operating netback" which is not a measure that has any standardized meaning prescribed by IFRS and is considered a non-IFRS measure, and as a result, should not be considered an alternative to or more meaningful than net earnings or funds flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. Artis' determination of 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 including realized gains and losses on commodity related derivative financial instruments.

Funds flow from Operations

One of the benchmarks that Artis uses to evaluate its performance is funds flow from operations. Funds flow from operations is a measure not defined under IFRS but is commonly used in the oil and gas industry. Funds flow 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 flow 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. Artis also presents funds flow per share whereby per share amounts are calculated using the weighted average shares outstanding, consistent with the calculation of income per share.

The following table reconciles cash provided by operating activities to funds flow from operations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Cash provided by operating activites	**19,370**	7,485	**48,908**	26,944
Changes in operating non-cash working capital	**2,061**	6,520	**7,474**	3,301
Funds flow from operations	**21,430**	14,005	**56,382**	30,244

Working Capital and Net Debt

The Company monitors its capital structure with a goal of maintaining a strong financial position to fund current operations and the future growth of the Company. Artis monitors working capital and net debt as part of its capital structure. Working capital and net debt do not have a standardized meaning prescribed by IFRS, and therefore, may not be comparable with the calculation of similar measures for other entities.

The following tables outline Artis' calculation of working capital and net debt:

	September 30, 2019	December 31, 2018
(000s)	*($)*	*($)*
Current assets	**21,217**	75,591
Current liabilities	**(59,005)**	(37,373)
Derivative financial instruments	**(1,358)**	-
Current portion of provisions	**216**	260
Current portion of lease obligations	**407**	-
Working capital (deficiency)	**(38,523)**	38,478

	September 30, 2019	December 31, 2018
(000s)	*($)*	*($)*
Bank loan	**(65,662)**	-
Working capital (deficiency)	**(38,523)**	38,478
Net debt	**(104,185)**	38,478

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 including our planned 2020 drilling program; 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 including targeted 2019 net debt to forward funds flow ratio, funds from operations; the availability of funds to finance the Company's capital expenditure program; 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"). 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 natural gas liquids ("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 nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Crude oil *(bbls/d)*	**5,374**	2,381	**4,670**	1,870
Natural gas *(mcf/d)*	**3,927**	1,263	**3,182**	1,002
NGLs *(bbls/d)*	**278**	60	**178**	47
Total *(boe/d)*	**6,307**	2,651	**5,378**	2,084
Liquids *(%)*	**90**	92	**90**	92

For the three months ended September 30, 2019, production averaged 6,307 boe/d (90% weighted to crude oil and NGLs), a 138% increase from the 2,651 boe/d (92% weighted to crude oil and NGLs) averaged during the same period a year ago.

During the nine months ended September 30, 2019, Artis' production increased 158% to average 5,378 boe/d versus 2,084 boe/d a year ago. During the first nine months of 2019, production consisted of 4,848 bbls/d of crude oil and NGLs and 3,182 mcf/d of natural gas. Liquids production was 90% of total production.

The increase for both periods was a result of 16 (16.0 net) new wells coming on stream over the first nine months of the year at Trochu, Alberta.

Revenue and Pricing

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Revenue				
Crude oil	**34,310**	17,862	**88,241**	39,952
Realized financial derivative loss	**(317)**	-	**(317)**	-
Total crude oil	**33,993**	17,862	**87,924**	39,952
Natural gas	**392**	185	**1,413**	483
NGLs	**437**	240	**1,033**	557
Total revenue before unrealized financial derivative loss	**34,822**	18,287	**90,370**	40,992
Unrealized financial derivative gain	**1,750**	-	**1,358**	-
Total revenue	**36,572**	18,287	**91,728**	40,992

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Average Prices				
Crude oil *($/bbl)*	**69.40**	81.56	**69.22**	78.27
Realized derivative loss *($/bbl)*	**(0.64)**	-	**(0.25)**	-

Total crude oil sales price *($/bbl)*	**68.76**	81.56	**68.97**	78.27
Natural sales gas *($/mcf)*	**1.09**	1.59	**1.63**	1.77
NGLs sales price *($/bbl)*	**17.05**	43.65	**21.22**	43.14
Total sales price *($/boe)* (1)	**60.01**	74.98	**61.55**	72.05

Artis' production is sold within Canada and the majority is marketed to three 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.

During the three months ended September 30, 2019, revenue before unrealized derivative gain increased to $34.8 million from $18.3 million recorded in the same period of 2018. The 90% increase was due to the 138% year-over-year growth in production, partially offset by lower overall realized pricing that fell 16% to $68.76/boe from $81.56/boe recorded last year. During the third quarter of 2019, Artis realized an average price of $68.76/bbl for crude oil (including a $0.64/bbl realized loss from financial derivative contracts) and $1.09/mcf for natural gas and $17.05/bbl for NGLs.

For the nine months ended September 30, 2019, revenue before unrealized financial derivative gain increased 120% to $90.4 million from $41.0 million last year due primarily to a 158% increase in production which again was partially offset by lower overall realized pricing that fell 15%. The Company's overall realized price decreased to $61.55/boe from $72.05/boe recorded in 2018 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 nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Average Benchmark Prices				
Crude oil – WTI *(US$/bbl)*	**56.45**	69.50	**57.06**	66.75
MSW (Edm) differential *(US$/bbl)*	**(4.66)**	(6.83)	**(4.71)**	(6.06)
Crude oil – MSW (Edm) par *(CDN$/bbl)*	**68.17**	81.91	**69.39**	78.24
Natural gas – AECO spot				
Daily index *(CDN$/GJ)*	**0.86**	1.13	**1.44**	1.41
Exchange rate *(CDN$/US$)*	**1.32**	1.31	**1.33**	1.29

Artis has been receiving close to posted MSW (Edmonton) light 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 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, as 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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Realized loss on financial instruments	**(317)**	-	**(317)**	-
Per boe	**(0.64)**	-	**(0.25)**	-

Unrealized gain on financial instruments	**1,750**	-	**1,358**	-

The Company held the following derivative commodity contracts at September 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	$59.35/bbl	Swap
Crude oil	500 bbls/day	October 1, 2019 – December 31, 2019	US$ NYMEX – WTI	$59.95/bbl	Swap
Crude oil	500 bbls/day	January 1, 2020 – June 30, 2020	US$ NYMEX – WTI	$55.40/bbl	Swap
Crude oil	500 bbls/day	January 1, 2020 – March 31, 2020	US$ NYMEX – WTI	$57.77/bbl	Swap
Crude oil	500 bbls/day	April 1, 2020 – June 30, 2020	US$ NYMEX – WTI	$55.91/bbl	Swap

Royalties

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2017
(000s)	*($)*	*($)*	*($)*	*($)*
Royalties				
Crown	**1,867**	850	**4,381**	1,825
Freehold/GORR	**1,493**	446	**3,678**	921
Total royalties	**3,360**	1,296	**8,059**	2,746
Total royalties *($/boe)*	**5.79**	5.31	**5.49**	4.83
	(%)	*(%)*	*(%)*	*(%)*
% of Revenue				
Crown	**5.3**	4.6	**4.8**	4.5
Freehold/GORR	**4.2**	2.4	**4.1**	2.2
Total	**9.6**	7.1	**8.9**	6.7

For the quarter ended September 30, 2019, the Company recorded $3.4 million in total royalties or 9.6% of revenue versus $1.3 million or 7.1% of revenue a year ago. Approximately 5.3% of total revenue paid in the third quarter of 2019 consisted of Crown royalties and 4.2% of total revenue was paid to overriding and freehold royalty owners ("GORRs") compared to 4.6% and 2.4%, respectively, in the 2018 three-month period.

For the first nine months of 2019, total royalties were $8.1 million or 8.9% of revenue versus $2.7 million or 6.7% of revenue a year ago.

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

Operating Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Operating expenses	**5,634**	1,918	**14,580**	4,760
Less: Third party processing income	**(76)**	(25)	**(218)**	(181)
Net operating expenses	**5,558**	1,893	**14,362**	4,579
Per unit of production *($/boe)*	**9.58**	7.76	**9.78**	8.05

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 $5.6 million for the third quarter of 2019 compared to $1.9 million recorded a year ago. Operating costs net of third-party processing income on a per boe basis increased 23% to $9.58/boe from $7.76/boe in 2018. For the first nine months of 2019, operating costs were $14.4 million or $9.78/boe compared to $4.6 million or $8.05/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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Transportation expenses	**2,907**	1,211	**7,580**	2,679
Transportation expenses *($/boe)*	**5.01**	4.97	**5.16**	4.71

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 September 30, 2019, transportation costs rose to $2.9 million or $5.01/boe from $1.2 million or $4.97/boe last year. For the first nine months of 2019, transportation costs were $7.6 million or $5.16/boe versus $2.7 million or $4.71/boe a year ago. The increase 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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Revenue				
Crude oil *($/bbl)*	**68.76**	81.56	**68.97**	78.27

Natural gas *($/mcf))*	**1.09**	1.59	**1.63**	1.77
NGLs *($/bbl)*	**17.05**	43.65	**21.22**	43.14
Production revenue *($/boe)*	**60.01**	74.98	**61.55**	72.05
Expenses				
Royalties *($/boe)*	**(5.79)**	(5.31)	**(5.49)**	(4.83)
Operating *($/boe)*	**(9.58)**	(7.76)	**(9.78)**	(8.05)
Transportation *($/boe)*	**(5.01)**	(4.97)	**(5.16)**	(4.71)
Operating netback *($/boe)*	**39.63**	56.94	**41.12**	54.47

For the third quarter of 2019, the Company recorded an operating netback of $39.63/boe compared to $56.94/boe in the same quarter last year. The 30% decrease was primarily a result of crude oil prices decreasing 16% from third quarter 2018 levels and a 23% increase in operating costs compared to last year.

During the nine months ended September 30, 2019, Artis' operating netback was $41.12/boe versus $54.47/boe in the same period of 2018. The 25% decrease was mainly due to lower crude oil prices and higher operating, transportation and royalty costs.

General and Administrative ("G&A") Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Gross expenses	**1,753**	1,137	**6,403**	3,137
Capitalized expenses	**(533)**	(204)	**(2,164)**	(532)
Operator's recoveries	**(3)**	(197)	**(150)**	(531)
General and administrative expenses	**1,217**	736	**4,089**	2,074
Per unit of production ($/boe)	**$2.10**	3.02	**2.78**	3.65

For the three months ended September 30, 2019, G&A expenses totaled $1.2 million compared to $0.7 million recorded in the same period a year ago. For the periods ended September 30, 2019 and 2018, the Company capitalized $0.5 million and $0.4 million, respectively, with regards to administrative overhead and employee salaries directly related to exploration and development activities. G&A expenses decreased 30% on a per unit of production basis because of the 138% increase in production during the period.

For the nine months ended September 30, 2019, G&A expenses totaled $4.1 million compared to $2.1 million recorded in the same period a year ago. For the periods ended September 30, 2019 and 2018, the Company capitalized $2.3 million and $1.1 million, respectively, with regards to administrative overhead and employee salaries directly related to exploration and development activities. G&A expenses decreased 24% on a per unit of production basis because of the 158% increase in production during the period.

Share-Based Compensation Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Gross expenses	**1,031**	1,017	**2,665**	2,962
Capitalized expenses	**(266)**	(310)	**(732)**	(905)
Total share-based compensation	**765**	707	**1,933**	2,057

For the three months ended September 30, 2019, Artis recorded non-cash share-based compensation expense of $0.8 million compared to $0.7 million for the previous period. For the periods ended September 30, 2019 and 2018, the Company capitalized $0.3 million and $0.3 million, respectively of stock-based compensation relating to stock options of employees and service providers directly related to exploration and development activities.

The Company had non-cash share-based compensation expense of $1.9 million for the first nine months of 2019 (2018 – $2.1 million) which was net of capitalized stock-based compensation of $0.7 million (2018 - $0.9 million).

Finance Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Interest expense on credit facility	**239**	-	**239**	-
Standby fees on credit facility	**117**	24	**231**	62
Interest expense on lease obligations	**23**	-	**68**	-
Accretion of decommissioning obligations	**44**	21	**117**	52
Accretion of the onerous contract	**4**	-	**12**	-
Finance expenses	**427**	45	**667**	114

The Company incurred $0.2 million of interest expense in the third quarter of 2019 as the Company began to draw on its $180 million bank facility for the first time. Artis was charged an average interest rate of 3.5% for the quarter. The Company incurred credit facility stand-by fees of $231,000 (2018 - $62,000) for the nine months ended September 30, 2019. The standby fees increased because the size of the credit facility increased from $65 million to $180 million in mid-May of 2019.

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 September 30, 2019 financial statements.

The Company's accretion expense for the three-month period ended September 30, 2019 was $44,000 versus $21,000 in the comparable period of 2018 and $117,000 for the nine-month period ended September 30, 2019 as compared to $52,000 for the prior period. The larger accretion expense relates to the increase in the decommissioning obligations due to the 23.0 net wells drilled in the first nine months of 2019 and additional oil battery facilities added as compared to 16.0 net wells drilled in the first nine months of 2018.

Depletion and Depreciation ("D&D") Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
D&D expense	**9,054**	3,548	**22,958**	8,260
D&D expense *($/boe)*	**15.61**	14.55	**15.64**	14.52

The Company's D&D expense for the nine months ended September 30, 2019 was $9.1 million or $15.61/boe versus $3.5 million or $14.55/boe for 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 $1.7 billion (2018 – $1.0 billion) for future development costs associated with proved plus probable undeveloped reserves and excluded $1.2 million (2018 – $0.5 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 nine months ended September 30, 2019, Artis recorded an exploration and evaluation expense of $891,000 versus $159,000 a year ago. Exploration and evaluation expenses relate mainly to undeveloped land expiries.

Deferred Income Taxes

For the third quarter and the first nine months of 2019, Artis recorded a deferred income tax expense of $3.2 million and $6.3 million, respectively, compared to $2.9 million and $6.1 million, respectively, for the same periods in 2018. The reduction in the deferred income tax rate in 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 $468 million of tax pools available for deduction against future taxable income as at September 30, 2019.

Cash, Funds Flow from Operations and Net Income

	Three Months Ended September 30		Nine months Ended September 30	
	2019	2018	**2019**	2018
(000s, except per share amounts)	*($)*	*($)*	*($)*	*($)*
Cash provided by operating activities	**19,370**	7,485	**48,908**	26,944
Funds flow from operations	**21,430**	14,005	**56,382**	30,244
Per share [(1)] – basic	**0.13**	0.09	**0.35**	0.22
– diluted	**0.12**	0.08	**0.32**	0.21
Net income	**9,856**	6,817	**25,462**	13,592
Per share – basic	**0.06**	0.04	**0.16**	0.10
– diluted	**0.06**	0.04	**0.14**	0.09

(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 third quarter and the first nine months of 2019, cash provided by operating activities, funds flow from operations 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 third quarter of 2019, the Company invested $72.8 million in total capital expenditures, which included capital expenditures on exploration and evaluation assets as well as property, plant and equipment, compared to $66.4 million in the same period of 2018.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)(excluding decommissioning liabilities, capitalized share-based compensation, and Right-to-use Assets)	*($)*	*($)*	*($)*	*($)*
Drilling and completions	**46,091**	48,977	**137,091**	102,394
Equipment and facilities	**21,726**	11,187	**47,411**	20,124
Geological and geophysical	**205**	3,566	**2,700**	4,238
Land and lease retention	**4,171**	2,388	**12,038**	11,237
Capitalized G&A and other	**559**	237	**2,282**	580
Total capital expenditures	**72,752**	66,356	**201,522**	138,573

During the third quarter of 2019, the Company incurred $46.1 million (2018 – $49.0 million) in drilling and completion expenditures that involved the drilling and completion of 7 (7.0 net) horizontal crude oil wells as compared to the drilling of 10 (9.0 net) wells and the completion of 6 (5.0 net) wells during the third quarter of 2018. Equipping and facilities expenditures for the three months ended September 30, 2019 and 2018 were $21.7 million and $11.2 million, respectively. Included in the equipping and facilities expenditures for 2019 were $9.0 million for major facilities and pipelines. During the 2019 three-month period, the Company invested $4.4 million on land and seismic versus $2.6 million for the same period of 2018.

Drilling and completion expenditures totaled $137.1 million for the nine months ended September 30, 2019, (2018 – $102.4 million) that involved participation in 23 (23.0 net) horizontal wells versus 17 (16.0 net) horizontal wells for the same period in 2018. Equipping and facilities expenditures for the nine months ended September 30, 2019 and 2018 were $47.4 million and $20.1 million, respectively. Included in the equipping and facilities expenditures for 2019 were $16.1 million of investments for major facilities and pipelines. During the 2019 nine-month period, the Company invested $14.7 million on land and seismic versus $15.5 million for the same period of 2018.

Drilling Activity

	Total	
	Gross	Net
	(#)	*(#)*
Nine Months Ended September 30, 2019		
Crude oil (horizontal)	**23**	**23.0**
Total wells	**23**	**23.0**
Average working interest *(%)*		**100**
Nine Months Ended September 30, 2018		
Crude oil (horizontal)	17	16.0
Total wells	17	16.0
Average working interest *(%)*		94

Share Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*(#)*	*(#)*	*(#)*	*(#)*
Weighted Average Shares Outstanding				
Basic	**160,197**	159,597	**160,129**	140,303
Diluted	**178,860**	166,616	**178,792**	145,721
Outstanding Securities				
Common shares	**160,197**	159,597	**160,197**	159,597
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 November 20, 2019, Artis had outstanding 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 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 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 nine-month periods ended September 30:

	2019	2018
(000s)	*($)*	*($)*
Working capital – beginning of year	**38,478**	18,413
Funds flow from operations	**56,382**	30,244
Issue of share capital for cash, net of share issue costs	**-**	176,868
Capital expenditures	**(198,522)**	(138,573)
Increase in long term bank debt	**65,662**	-
Payments on lease obligations	**(177)**	-
Payments on onerous contract	**(345)**	-
Working capital (deficiency)– end of period	**(38,523)**	86,952

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.

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	**Q3 2019**
(000s, except per share amounts) (unaudited)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Petroleum and natural gas revenues	8,483	10,277	12,428	18,287	16,501	25,157	30,391	**35,139**
Funds flow from operations	6,287	7,162	9,078	14,005	9,725	16,134	18,737	**21,430**
Per share (1) – basic	0.06	0.06	0.07	0.09	0.06	0.10	0.12	**0.13**
– diluted	0.05	0.06	0.06	0.08	0.05	0.09	0.10	**0.12**
Net income (loss)	2,168	2,828	3,947	6,817	1,225	5,840	9,765	**9,856**
Per share – basic	0.02	0.02	0.03	0.04	0.01	0.04	0.06	**0.06**
– diluted	0.02	0.02	0.03	0.04	0.01	0.03	0.05	**0.06**
Weighted average shares								
Basic	114,044	123,018	137,891	159,597	159,597	159,991	160,197	**160,197**
Net capital expenditures	63,997	29,624	42,593	66,356	58,200	56,107	72,663	**72,752**
Net debt (surplus)(2)	(18,412)	4,050	(139,304)	(86,952)	(38,478)	(1,415)	52,705	**104,185**
Shareholders' equity	192,356	196,123	379,572	387,406	389,649	399,124	409,889	**420,776**
Production								
Crude oil *(bbls/d)*	1,337	1,563	1,656	2,381	4,284	4,188	4,434	**5,374**
Natural gas *(mcf/d)*	488	837	900	1,263	2,263	2,470	3,134	**3,927**
NGLs *(bbls/d)*	11	36	46	60	109	110	144	**278**
Total *(boe/d)*	1,429	1,739	1,852	2,651	4,771	4,710	5,101	**6,307**
Liquids *(%)*	94	92	92	92	92	91	90	**90**

Average wellhead prices								
Crude oil *($/bbl)*	67.86	70.69	80.57	81.56	40.02	64.15	73.73	**68.76**
Natural gas *($/mcf))*	1.99	2.38	1.45	1.59	1.83	3.05	1.20	**1.09**
NGLs *($/bbl)*	47.48	46.77	39.63	43.65	34.24	30.14	22.65	**17.05**
Total *($/boe)*	64.53	65.67	73.74	74.98	37.59	59.35	65.48	**60.01**
Royalties *($/boe)*	(3.70)	(3.96)	(4.92)	(5.31)	(2.64)	(4.80)	(5.48)	**(5.79)**
Operating costs *($/boe)*	(5.34)	(7.84)	(8.66)	(7.76)	(7.04)	(8.83)	(10.91)	**(9.58)**
Transportation costs *($/boe)*	(4.24)	(4.61)	(4.43)	(4.97)	(5.48)	(5.25)	(5.28)	**(5.01)**
Operating netback *($/boe)*	51.25	49.25	55.73	56.94	22.44	40.47	43.81	**39.63**

(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) Non-IFRS Measure. Net debt (surplus) includes cash and cash equivalents plus trade and other receivables and deposits and prepaid expenses less accounts payable and accrued liabilities and bank debt. See "Non-IFRS Measures" contained within Artis' MD&A..

New Accounting Pronouncements

Adoption of IFRS 16 – Leases

On January 1, 2019, the Company adopted IFRS 16 Leases, which replaces IAS17 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.

ARTIS EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

As at	**September 30, 2019**	December 31, 2018
(000s) (unaudited)	*($)*	*($)*
Assets		
Current assets		
Cash and cash equivalents	**-**	64,988
Trade and other receivables	**17,626**	9,809
Derivative financial instruments *(note 4)*	**1,358**	-
Prepaid expenses and deposits	**2,233**	794
	21,217	75,591
Non-current assets		
Property, plant and equipment *(note 5)*	**467,067**	289,492
Exploration and evaluation assets *(note 6)*	**85,710**	77,467
	552,777	366,959
Total assets	**573,994**	442,550
Liabilities		
Current liabilities		
Accounts payables and accrued liabilities	**58,382**	37,113
Provisions *(note 8)*	**216**	260
Lease obligations *(note 9)*	**407**	-
	59,005	37,373
Non-current liabilities		
Bank debt *(note 7)*	**65,662**	-
Provisions *(note 8)*	**11,858**	5,730
Lease obligations *(note 9)*	**597**	-
Deferred tax liability	**16,096**	9,798
	94,213	15,528
Total liabilities	**153,218**	52,901
Equity		
Share capital *(note 10)*	**372,361**	369,361
Contributed surplus	**12,360**	9,695
Retained earnings	**36,055**	10,593
Total equity	**420,776**	389,649
Total liabilities and equity	**573,994**	442,550

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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s, except per share amounts) (unaudited)	*($)*	*($)*	*($)*	*($)*
Revenue				
Petroleum and natural gas revenues *(note 11)*	**35,139**	18,287	**90,687**	40,992
Royalties	**(3,360)**	(1,296)	**(8,059)**	(2,746)
Realized loss on derivative instruments	**(317)**	-	**(317)**	-
Unrealized gain on derivative instruments	**1,750**	-	**1,358**	-
Other revenue *(note 11)*	**82**	903	**790**	1,573
	33,294	17,894	**84,459**	39,819
Expenses				
Operating	**5,634**	1,918	**14,580**	4,760
Transportation	**2,907**	1,211	**7,580**	2,679
Depletion and depreciation *(note 5)*	**9,054**	3,548	**22,958**	8,260
General and administrative	**1,217**	736	**4,089**	2,074
Share-based compensation	**765**	707	**1,933**	2,057
Exploration and evaluation *(note 6)*	**261**	14	**891**	159
Finance expenses *(note 12)*	**427**	45	**667**	114
	20,265	8,179	**52,698**	20,103
Income before income taxes	**13,029**	9,715	**31,761**	19,716
Deferred income tax expense	**3,173**	2,898	**6,299**	6,124
Income and comprehensive income for the period	**9,856**	6,817	**25,462**	13,592
Income per share				
Basic *(note 13)*	**0.06**	0.04	**0.16**	0.10
Diluted *(note 13)*	**0.06**	0.04	**0.14**	0.09

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
(000s)(unaudited)	*(#)*	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2019	**159,597**	**369,361**	**9,695**	**10,593**	**389,649**
Issue of common shares *(note 10)*	**600**	**3,000**	**-**	**-**	**3,000**
Share-based payments	**-**	**-**	**2,665**	**-**	**2,665**
Income for the period	**-**	**-**	**-**	**25,462**	**25,462**
Balance – September 30, 2019	**160,197**	**372,361**	**12,360**	**36,055**	**420,776**

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
(000s)(unaudited)	*(#)*	*($)*	*($)*	*($)*	*($)*
Balance – January 1, 2018	123,018	190,865	5,716	(4,225)	192,356
Issue of common shares *(note 10)*	36,579	182,896	-	-	182,896
Share issue costs, net of tax of $1,627	-	(4,400)	-	-	(4,400)
Share-based payments	-	-	2,962	-	2,962
Income for the period	-	-	-	13,592	13,592
Balance – September 30, 2018	159,597	369,361	8,678	9,367	387,406

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

ARTIS EXPLORATION LTD.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s) (unaudited)	*($)*	*($)*	*($)*	*($)*
Cash provided by (used in):				
Operating activities				
Income for the period	**9,856**	6,817	**25,462**	13,592
Adjustments for:				
Depletion and depreciation *(note 5)*	**9,054**	3,548	**22,958**	8,260
Exploration and evaluation *(note 6)*	**261**	14	**891**	159
Interest on lease obligations *(note 12)*	**23**	-	**68**	-
Unrealized gain on derivative instruments	**(1,750)**	-	**(1,358)**	-
Deferred income taxes	**3,173**	2,898	**6,299**	6,124
Accretion of provisions *(note 12)*	**49**	21	**129**	52
Share-based compensation	**765**	707	**1,933**	2,057
Change in non-cash working capital	**(2,061)**	(6,520)	**(7,474)**	(3,301)
	19,370	7,485	**48,908**	26,944
Investing activities				
Property, plant and equipment expenditures *(note 5)*	**(68,668)**	(60,447)	**(186,798)**	(123,315)
Additions to exploration and evaluation assets *(note 6)*	**(4,084)**	(5,909)	**(11,724)**	(15,258)
Change in non-cash working capital	**(1,899)**	6,299	**19,486**	30,218
	(74,651)	(60,057)	**(179,036)**	(108,355)
Financing activities				
Increase in bank debt	**55,439**	-	**65,662**	-
Payments on onerous contract *(note 8)*	**(31)**	-	**(177)**	-
Payments on lease obligations *(note 9)*	**(127)**	-	**(345)**	-
Proceeds from issue of share capital	**-**	**-**	**-**	182,896
Share issuance costs	**-**	**-**	**-**	(6,028)
Net cash from financing activities	**55,281**	-	**65,140**	176,868
Change in cash and cash equivalents	**-**	(52,572)	**(64,988)**	95,457
Cash and cash equivalents – beginning of period	**-**	168,613	**64,988**	20,584
Cash and cash equivalents – end of period	**-**	116,041	**-**	116,041

The notes are an integral part of these condensed interim 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 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.

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 November 20, 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 IAS17 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 September 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	($10.75)/bbl	Swap	(350)
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ MSW – WTI differential	($10.80)/bbl	Swap	(352)
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ NYMEX - WTI	$59.35/bbl	Swap	336
Crude oil	500 bbls/day	July 1, 2019 – December 31, 2019	US$ NYMEX - WTI	$60.62/bbl	Swap	413
Crude oil	500 bbls/day	October 1, 2019 – December 31, 2019	US$ NYMEX – WTI	$59.95/bbl	Swap	372
Crude oil	500 bbls/day	January 1, 2020 – June 30, 2020	US$ NYMEX – WTI	$55.40/bbl	Swap	383
Crude oil	500 bbls/day	January 1, 2020 – March 31, 2020	US$ NYMEX – WTI	$57.77/bbl	Swap	301
Crude oil	500 bbls/day	April 1, 2020 – June 30, 2020	US$ NYMEX – WTI	$55.91/bbl	Swap	255
Total						**1,358**

5. Property, Plant and Equipment

	Oil and Natural Gas Properties
(000s)	*($)*
Cost or deemed cost	
Balance – December 31, 2018	311,007
Additions	**189,798**
Capitalized share-based compensation	**732**
Increase in right-to-use assets	**1,281**
Transfer from exploration and evaluation assets	**2,590**
Change in decommissioning obligations	**6,132**
Balance – September 30, 2019	**511,540**

Depletion and depreciation	
Balance – December 31, 2017	21,515
Depletion and depreciation for the period	**22,958**
Balance – September 30, 2019	**44,473**
Carrying amounts	
September 30, 2019	**467,067**
December 31, 2018	289,492

Depletion and Depreciation

The calculation of 2019 depletion and depreciation expense included an estimated $1.7 billion (2018 – $979.4 million) for future development costs associated with proved plus probable undeveloped reserves and excluded $1.2 million (2018 – $0.5 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.

Capitalization of G&A and Share-Based Compensation

A total of $2.2 million in G&A expenditures have been capitalized and included in PP&E assets at September 30, 2019 (2018 – $1.1 million). Also included in PP&E are non-cash share-based payments of $0.7 million (2018 – $0.9 million).

Impairment Assessment

In accordance with IFRS, an impairment test is performed if the Company identifies an indicator of impairment. At September 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

(000s)	*($)*
Cost	
Balance – December 31, 2018	77,467
Additions	**11,724**
Transfers to property, plant and equipment	**(2,590)**
Impairments	**(891)**
Balance – September 30, 2019	**85,710**

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 related to undeveloped land expiries.

7. Bank Loan

At September 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”) of which $65.6 million (2018 – nil) has been drawn against 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 Base 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

	2019	2018
(000s)	*($)*	*($)*
Decommissioning obligations (a)	**11,717**	4,875
Onerous contract (b)	**356**	-
Total provisions	**12,073**	4,875

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

	2019	2018
(000s)	*($)*	*($)*
Current portion	**216**	-
Long term portion	**11,857**	4,875
Total provisions	**12,073**	4,875

(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 $11.7 million as at September 30, 2019 (2018 – $4.9 million) based on an undiscounted inflated total future liability of $14.9 million (2018 – $6.2 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 1.8% (2018 – 1.9%).

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

	2019	2018
(000s)	*($)*	*($)*
Balance – beginning of year	**5,469**	3,222
Liabilities incurred	**6,131**	1,601
Accretion of decommissioning obligation	**117**	52
Balance – end of period	**11,717**	4,875

(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 September 30, 2019 and 2018:

	2019	2018
(000s)	*($)*	*($)*
Balance – beginning of year	**522**	-
Payments	**(177)**	-
Accretion of onerous contract	**12**	-
Balance – end of period	**356**	-

9. Lease obligations

	As at Sept. 30, 2019
(000s)	*($)*
Less than 1 year	**516**
1 – 3 years	**585**
Total undiscounted future lease payments	**1,101**
Future interest payments	**(97)**
Current portion of lease obligations	**(407)**
Long-term portion of lease obligations	**597**

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 – September 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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Oil production	**34,310**	17,862	**88,241**	39,952
Gas production	**392**	185	**1,413**	483
NGLs production	**437**	240	**1,033**	557
Total revenue	**35,139**	18,287	**90,687**	40,992

Other revenue:

The following table summarizes the Corporation's other revenue:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Third party processing income	**76**	25	**218**	181
Interest income	**6**	878	**572**	1,392
	82	903	**790**	1,573

12. Finance Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*($)*	*($)*	*($)*	*($)*
Interest expense	**378**	24	**538**	62
Accretion of provisions	**49**	21	**129**	52
	427	45	**667**	114

13. Income Per Share

Basic income per share was calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2017
(000s)	*(#)*	*(#)*	*(#)*	*(#)*
Weighted average number of common shares – basic				
Issued common shares – beginning of period	**160,197**	159,597	**159,597**	123,018
Effects of shares issued	**-**	-	**532**	17,285
Weighted average number of common shares – basic	**160,197**	159,597	**160,129**	140,303

Diluted earnings per share was calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(000s)	*(#)*	*(#)*	*(#)*	*(#)*
Weighted average number of common shares – basic	**160,197**	159,597	**160,129**	140,303
Effects of options in-the-money	**18,663**	7,019	**18,663**	5,418
Weighted average number of common shares – diluted	**178,860**	166,616	**178,792**	145,721

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, officers 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 the Company closed its initial line of credit 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 September 30, 2019.

At September 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 2.5 years. At September 30, 2019, 7,528,667 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	**4,231**	**1.88**	**1.8**
2.19	**4,231**	**2.19**	**1.8**
2.50	**4,231**	**2.50**	**1.8**
2.81	**4,231**	**2.81**	**1.8**
3.13	**4,231**	**3.13**	**1.8**
	21,765	**2.50**	**1.8**

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

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