Osum Oil Sands Corp.

Q1 2017 Interim Report to Shareholders

Dated May 4, 2017

Q1 2017 Interim Report | **Page**

Review and Outlook

Q1 2017 Review

During the first quarter of 2017, Osum commenced the drilling of two of three new well pairs at Orion. Drilling of the third well pair commenced in April of 2017. The wells will capitalize on the additional steam generated by the third boiler installed in late 2016 and are located on existing well pads to minimize both the environmental footprint and costs. Completion and first steam circulation for all three well pairs are anticipated by early Q3, which should position Orion for a meaningful increase in production and cash flow in 2018.

The final step in this expansion (Phase 2A) of Orion is the delivery and installation of a waste crystallizer unit, which has been procured and is currently being fabricated. When on stream late in 2017, the unit will concentrate the evaporator waste stream, lowering trucking and disposal costs, and increasing the water recycle rate.

Osum's ability to make these significant capital investments was bolstered by the receipt in February of 2017 of $100 million related to its call of of the 8,000,000 outstanding common share purchase warrants in the fourth quarter 2016. With the receipt of these proceeds, the Company has a strong liquidity position with $172.9 million of cash on hand at March 31, 2017 and net working capital (excluding net unrealized hedging liabilities) of $160.7 million.

Production

Average production at Orion in the quarter of 7,654 bbl/d was in line with the forecast average for the year of 7,700 bbl/d but down 6% from the prior quarter's average of 8,102 bbl/d. The decrease was expected as the prior quarter's average was boosted by flush production from wells coming back on stream following well downtime in the third quarter of 2016 and the early results from several well perforations. Average steam injection increased 12% from the prior quarter to 5,613 m^3/d, reflecting some of the additional capacity provided by the third boiler that was installed in late 2016.

Operating netback

In the first quarter, Osum generated a field operating netback of $11.0 million or $16.02/bbl, compared with a netback of $13.7 million or $18.32/bbl in the prior quarter. Including realized financial hedging gains and losses, the netback in the quarter was $9.3 million or $13.53/bbl, and compares more closely with $10.1 million or $13.56/bbl in the prior quarter. While the decrease in average production was the main reason for the lower total netback, the following factors also contributed to the variances in both the total and per unit results:

- While the average index price for Cold Lake Blend was 6% higher than the prior quarter, the average realized bitumen price of $36.03/bbl was similar to the prior quarter, down $0.68/bbl or 2%. Osum's realized bitumen price on a barrel of production basis was negatively impacted by higher blending costs in the quarter and distorted by a build in blend inventory.
- Average Provincial royalties of $1.06/bbl or 2.9% of bitumen sales increased from $0.70/bbl or 1.7% of bitumen sales in the prior quarter. Like revenues, royalties were impacted by differences between the timing of bitumen production and blended bitumen sales, as well as by an increase in the calculated Canadian dollar oil price.

- Average total operating costs of $18.95/bbl were 7% or $1.26/bbl higher than the prior quarter.
    - Average non-fuel operating costs of $13.67/bbl were 9% or $1.10/bbl higher than the previous quarter. The increase in unit costs was primarily due to the impact of fixed operating costs applied against lower production.
    - Average fuel costs of $5.28/bbl were 3% or $0.16/bbl higher than the prior quarter despite a 13% decrease in the average AECO gas price, mainly due to more natural gas usage and higher steam generation from the recent boiler installation, and to lower production.
- Realized net losses on financial hedges totaled $1.7 million or $2.49/bbl, compared with $3.6 million or $4.76/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the quarter were $15.9 million, of which $11.8 million related to the Orion facility expansion projects.
- General and administrative expenses were $3.9 million, up from $3.1 million in the prior quarter. The increase was mainly due to the timing of personnel costs, including higher payroll taxes in the first quarter before employee maximums are reached later in the year, as well as the impact of the reduction recorded in the prior quarter to reflect a lower 2016 bonus payout.
- Net unrealized hedging liabilities totaled $1.8 million at March 31, 2017 due mainly to the strengthening of forward oil prices since the time that outstanding hedges were put in place.

Outlook

After some flush production in the fourth quarter of 2016, first quarter production stabilized at levels that are in line with management's expectations. While completion and first steam circulation for the three new well pairs are anticipated by early Q3, their forecast contribution to average 2017 production is minimal. Similarly, installation of the waste crystallizer unit in the second half of 2017 will structurally reduce operating costs and increase netbacks once fully operational, but will not materially impact 2017 results.

Osum continues to look for other opportunities to increase production and decrease operating costs through the execution of small capital projects funded by internally-generated cash flows and cash on hand, while maintaining prudent balances of cash and working capital.

Hedging remains a key area of focus as management seeks to mitigate the impact of price volatility and increase predictability of cash flows. To that end, after the quarter Osum added to its hedges for the first half of 2018.

Financial and Operational Summary

Estimates and Judgments

The preparation of the financial and operational summary below and the interim consolidated financial statements on which they are based require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates. In preparing these figures, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to and described in the audited consolidated financial statements for the year ended December 31, 2016.

For the three months ended	March 31, 2017	December 31, 2016	March 31, 2016
Business Environment (1)			
West Texas Intermediate (WTI) – US$/bbl	51.86	49.33	33.52
Cold Lake Blend (CLB) – US$/bbl	36.34	34.11	18.65
Differential – WTI less CLB – US$/bbl	15.52	15.22	14.87
Differential – CLB % of WTI	29.9%	30.9%	44.4%
Foreign exchange rate – C$/US$	1.3234	1.3338	1.3747
CLB – $/bbl	48.09	45.50	25.64
AECO – $/mcf	2.70	3.10	2.15
Operational (1) (2)			
Bitumen production – bbl/d	7,654	8,102	6,608
Blended bitumen sales (3) – bbl/d	10,564	11,125	9,370
Blended bitumen sales less diluent and transportation costs (3) – $/bbl	36.03	36.71	14.87
Royalties – $/bbl	(1.06)	(0.70)	(0.15)
Non-fuel operating costs – $/bbl	(13.67)	(12.57)	(16.67)
Fuel costs – $/bbl	(5.28)	(5.12)	(3.61)
Netback (3) (4) – $/bbl	16.02	18.32	(5.56)
Realized gain (loss) on financial risk management contracts – $/bbl	(2.49)	(4.76)	22.20
Adjusted netback (3) (4) – $/bbl	13.53	13.56	16.64
Financial			
Netback (3) (4)	11,036	13,665	(3,344)
Adjusted netback (3) (4)	9,318	10,114	10,003
Funds flow (5)	748	3,411	452
Cash flows from (used in) operating activities	5,004	678	(714)
Net and comprehensive income	3,599	99,197	1,352
Net income per share (basic) – $ (6)	0.03	0.81	0.01
Capital investment (7)	15,895	10,341	3,202
General and administrative expenses (net) (8)	3,883	3,066	5,138
Cash and cash equivalents (9)	172,910	83,525	98,877
Adjusted working capital (10)	160,706	76,686	95,555
Adjusted working capital plus available capital from outstanding callable warrants (10)(11)	160,706	176,686	195,555
Outstanding principal – long-term debt (12)	269,910	273,108	266,277
Shareholders' equity	487,686	383,350	429,060
Weighted average common shares outstanding	127,623	122,680	122,401

See footnotes on the next page.

(1) Business environment and operational metrics are averages for the period.
(2) Dollar per barrel metrics are calculated based on bitumen production volumes. Quarter-over-quarter per barrel metrics may be affected by differences between the timing of bitumen production and blended bitumen sales.
(3) Blended bitumen sales, blended bitumen sales less diluent and transportation costs, netback and adjusted netback for the three months ended December 31, 2016 and March 31, 2016 include $92 of realized losses and $551 of realized gains, respectively, on physical risk management contracts.
(4) Netback is calculated by deducting the related diluent, transportation, royalties and field operating costs from blend sales revenue. Adjusted netback is calculated by adjusting the netback to include realized gains and losses on financial risk management contracts.
(5) Funds flow is calculated as cash flows from operating activities before changes in non-cash operating working capital, which is presented on the consolidated statement of cash flows.
(6) For the three month periods ended March 31, 2017 and 2016, diluted net income per share was equal to basic net income per share. For the three months ended December 31, 2016, diluted net income per share was $0.80.
(7) Capital investment includes capitalized general and administrative expenses and excludes capitalized stock based compensation.
(8) General and administrative expenses (net) is calculated after reductions for capitalized salaries and benefits, onerous lease payments and exploration costs.
(9) Cash and cash equivalents include restricted cash of $11,188 at March 31, 2017 (December 31, 2016 – $11,192, March 31, 2016 – $11,158).
(10) Adjusted working capital is calculated as working capital adjusted to exclude risk management contracts, which are fair value estimates of unrealized gains and losses and are subject to a high degree of volatility prior to ultimate settlement.
(11) For the three month periods ended December 31, 2016 and March 31, 2016, adjusted working capital plus available capital from outstanding callable warrants included $100,000 associated with the aggregate exercise value of the 8,000,000 then outstanding callable common share purchase warrants. On December 1, 2016, the Company called all of the outstanding callable common share purchase warrants and proceeds were received in February of 2017.
(12) Outstanding principal of long-term debt consists of the non-current portion of the outstanding principal balance of the US$210,000 term loan and any amounts outstanding under the US$15,000 revolving loan, translated to C$ at the period-end foreign exchange rate of 1.3319 (December 31, 2016 – 1.3442, March 31, 2016 – 1.3005), and presented before unamortized transaction costs.

Osum Oil Sands Corp.

Consolidated Statements of Financial Position
(Unaudited, expressed in thousands of Canadian dollars)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	161,722	72,333
Restricted cash	11,188	11,192
Accounts receivable	16,176	16,957
Financial risk management contracts (note 4)	1,705	3,215
Prepaid expenses and other assets	1,031	1,037
Total current assets	191,822	104,734
Non-current assets:		
Property, plant and equipment (note 5)	512,456	507,423
Exploration, evaluation and other intangible assets (note 6)	78,953	78,510
Deferred tax asset (note 7)	34,102	33,548
Financial risk management contracts (note 4)	3,455	—
Abandonment deposits	329	322
Total assets	**821,117**	**724,537**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provision (note 8)	26,443	21,897
Financial risk management contracts (note 4)	5,476	13,768
Current portion of long-term debt (note 9)	2,797	2,823
Share unit liabilities (note 11)	171	113
Total current liabilities	34,887	38,601
Non-current liabilities:		
Long-term debt (note 9)	263,193	265,945
Decommissioning liabilities (note 10)	30,890	31,861
Provision (note 8)	1,533	1,848
Financial risk management contracts (note 4)	1,440	1,752
Share unit liabilities (note 11)	1,488	1,180
Total non-current liabilities	298,544	302,586
Shareholders’ equity		
Common shares (note 11)	1,032,094	932,094
Contributed surplus (note 11)	62,391	61,654
Cumulative deficit	(606,799)	(610,398)
Total shareholders' equity	487,686	383,350
Total liabilities and shareholders' equity	**821,117**	**724,537**

Contractual obligations and commitments (note 13)

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

Richard (Rick) George
Chairman

George Crookshank
Director

Osum Oil Sands Corp.

Consolidated Statements of Net and Comprehensive Income
(Unaudited, expressed in thousands of Canadian dollars, except share and per share amounts)

For the three months ended March 31,	**2017**	**2016**
Revenue:		
Blended bitumen sales	45,338	21,824
Royalties	(730)	(91)
Revenue net of royalties	44,608	21,733
Gain on financial risk management contracts (note 4)	8,832	4,566
Revenue net of royalties and gain on financial risk management contracts	53,440	26,299
Expenses:		
Diluent and transportation	20,519	12,883
Operating expenses	13,053	12,194
Depletion and depreciation (notes 5, 6)	9,695	9,610
General and administrative expenses	3,883	5,138
Share-based compensation expense (note 11)	969	426
Exploration costs	9	21
Onerous contract expense (note 8)	(1)	2,403
	48,127	42,675
Other expenses (income):		
Net finance costs (note 12)	4,623	4,811
Unrealized foreign exchange gain on long-term debt (note 9)	(2,525)	(17,295)
Accretion (notes 8, 10)	170	144
Total other expenses (income)	2,268	(12,340)
Net income (loss) before taxes	**3,045**	**(4,036)**
Deferred income tax recovery (expense) (note 7)	554	5,388
Net and comprehensive income	**3,599**	**1,352**
Net income per share, basic and diluted (note 11)	$0.03	$0.01
Weighted average number of common shares outstanding (thousands):		
Basic	127,623	122,401
Diluted	128,686	123,151

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

Osum Oil Sands Corp.

Consolidated Statements of Changes in Equity
(Unaudited, expressed in thousands of Canadian dollars)

	Number of common shares (thousands)	Share capital	Contributed surplus	Cumulative deficit	Total equity
Balance – January 1, 2017	122,914	932,094	61,654	(610,398)	383,350
Net income for the period	—	—	—	3,599	3,599
Share-based compensation	—	—	737	—	737
Share issuance on exercise of callable common share purchase warrants	8,000	100,000	—	—	100,000
Balance – March 31, 2017	**130,914**	**1,032,094**	**62,391**	**(606,799)**	**487,686**
Balance – January 1, 2016	122,401	929,927	58,975	(561,781)	427,121
Net income for the period	—	—	—	1,352	1,352
Share-based compensation	—	—	587	—	587
Balance – March 31, 2016	**122,401**	**929,927**	**59,562**	**(560,429)**	**429,060**

The accompanying condensed notes are an integral part of these interim consolidated financial statements. Refer to note 11 for further details on share capital.

Osum Oil Sands Corp.

Consolidated Statements of Cash Flows
(Unaudited, expressed in thousands of Canadian dollars)

For the three months ended March 31,	2017	2016
Cash provided by (used in)		
Operating activities:		
Net income for the period	3,599	1,352
Items not involving cash:		
Depletion and depreciation (notes 5, 6)	9,695	9,610
Unrealized foreign exchange gain on long-term debt (note 9)	(2,525)	(17,295)
Shared-based compensation expense (note 11)	969	426
Amortization of deferred transaction costs (note 9)	446	419
Accretion (notes 8,10)	170	144
Change in fair value of financial risk management contracts (note 4)	(10,550)	8,781
Onerous contract expense (note 8)	(1)	2,403
Deferred income tax recovery (note 7)	(554)	(5,388)
Settlements of onerous contract (note 8)	(224)	—
Settlements of decommissioning liabilities (note 10)	(277)	—
Funds flow from operating activities before changes in non-cash working capital	748	452
Change in non-cash operating working capital (note 14)	4,256	(1,166)
Total cash flows from (used in) operating activities	**5,004**	**(714)**
Investing activities:		
Property, plant and equipment expenditures (note 5)	(15,465)	(3,025)
Exploration, evaluation and other intangible assets (note 6)	(430)	(177)
Change in abandonment deposits	(7)	—
Change in non-cash investing working capital (note 14)	982	(5,965)
Total cash used in investing activities	**(14,920)**	**(9,167)**
Financing activities:		
Proceeds from share issuance (note 11)	100,000	—
Principal repayments of long-term debt (note 9)	(699)	(683)
Total cash from (used in) financing activities	**99,301**	**(683)**
Increase (decrease) in cash in period	89,385	(10,564)
Cash and cash equivalents – beginning of period	72,333	98,258
Restricted cash – beginning of period	11,192	11,183
Cash and cash equivalents – end of period	**161,722**	**87,719**
Restricted cash – end of period	**11,188**	**11,158**

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

1. The Company

Osum Oil Sands Corp. (“Osum” or the "Company”) is a private company formed under the Alberta Business Corporations Act on June 24, 2005. The Company’s primary activities are the operation and development of its in-situ bitumen properties in Alberta, Canada. These unaudited interim consolidated financial statements encompass the Company and its wholly-owned subsidiaries, Osum Production Corp. (“OPC”) and Osum Holdings Corp. ("OHC").

The address of the Company’s head office is Suite 1900, 255-5th Avenue SW, Calgary, Alberta, Canada, T2P 3G6.

2. Basis of Preparation

These unaudited interim consolidated financial statements do not include the information and disclosures required in annual audited financial statements and therefore should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2016.

The timely preparation of interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to and described in the audited consolidated financial statements for the year ended December 31, 2016.

These interim consolidated financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These interim consolidated financial statements are presented in Canadian dollars ("C$"), the Company's functional currency, and all financial information is reported in thousands of dollars unless otherwise noted.

These interim consolidated financial statements reflect the activities of the Company and its wholly-owned subsidiaries. All intercompany transactions, balances, income and expenses have been eliminated on consolidation.

These interim consolidated financial statements were authorized for issue by the Board of Directors on May 4, 2017.

3. Significant Accounting Policies

These interim consolidated financial statements have been prepared using the same significant accounting policies outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2016.

<u>Future Accounting Policies</u>

(a) IFRS 15 – Revenue from contracts with customers

IFRS 15 – *Revenue from contracts with customers*, intended to replace IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and related interpretations, specifies how and when an IFRS reporter will recognize revenue as well as requiring more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently assessing and evaluating the impact of the standard on the consolidated financial statements.

(Unaudited, Expressed in thousands of Canadian dollars)

(b) IFRS 9 – Financial instruments

IFRS 9 – *Financial Instruments,* intended to replace IAS 39 – *Financial Instruments: Recognition and Measurement*, uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently assessing and evaluating the impact of the standard on the consolidated financial statements.

(c) IFRS 16 – Leases

IFRS 16 – *Leases*, intended to replace IAS 17 – *Leases,* brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and the Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Risk Management Contracts

Financial risk management contracts

The Company recorded the following net gains (losses) related to its financial risk management contracts:

For the three months ended March 31,	2017	2016
Realized gain (loss)	(1,718)	13,347
Change in fair value	10,550	(8,781)
Gain on financial risk management contracts	8,832	4,566

The following financial risk management contracts were in place as at March 31, 2017, and the related fair values were recorded on the consolidated statement of financial position:

Contract	Notional	Price	Remaining Term	Fair Value
Swap – WTI	4,300 bbl/d	$70.80	Oct 1/17 - Dec 31/17	716
Swap – WTI	2,375 bbl/d	$73.50	Jan 1/18 - Dec 31/18	4,444
Total unrealized financial risk management assets				5,160

(Unaudited, Expressed in thousands of Canadian dollars)

Contract	Notional	Price	Remaining Term	Fair Value
Swap – WTI	4,100 bbl/d	$66.30	Apr 1/17 - Jun 30/17	(614)
Swap – WTI/WCS differential	5,400 bbl/d	$(19.12)	Apr 1/17 - Jun 30/17	(1,254)
Swap – WTI/WCS differential	5,500 bbl/d	$(19.10)	Jul 1/17 - Sep 30/17	(476)
Swap – WTI	4,300 bbl/d	$65.50	Jul 1/17 - Sep 30/17	(1,307)
Swap – WTI/WCS differential	5,800 bbl/d	$(21.88)	Oct 1/17 - Dec 31/17	(1,145)
Swap – WTI/WCS differential	3,240 bbl/d	$(22.70)	Jan 1/18 - Dec 31/18	(2,120)
Total unrealized financial risk management liabilities				(6,916)

The fair market value measurements are categorized as level 2 as they are based on quoted WTI and WCS differential prices from independent pricing services in active markets for similar assets or liabilities.

The following table sets out the impact of changes in forward commodity prices on net income before taxes related to changes in the fair value of financial risk management contracts in place as at March 31, 2017:

Price or rate	Change	Impact on net income before taxes
WTI	$1.00/bbl	2,031
WTI/WCS differential	$1.00/bbl	2,714

Subsequent to March 31, 2017, the Company entered into financial risk management contracts with the following terms:

Contract	Notional	Price	Term
Swap – WTI	2,025 bbl/d	$70.15	Jan 1/18 - Mar 31/18
Swap – WTI/WCS differential	2,700 bbl/d	($21.39)	Jan 1/18 - Mar 31/18
Swap – WTI/WCS differential	1,000 bbl/d	($20.95)	Apr 1/18 - Jun 30/18

Credit and counterparty concentration risks related to the financial risk management contracts are considered acceptable due to the size and financial strength of the counterparties.

Physical risk management contracts

During the three months ended March 31, 2017, the Company did not have any physical risk management contracts in place. During the three months ended March 31, 2016, the Company recorded a realized gain of $551 within blended bitumen sales related to its physical risk management contracts.

(Unaudited, Expressed in thousands of Canadian dollars)

5. Property, Plant and Equipment

	Development and production assets	Corporate assets	Total
Cost			
Balance – December 31, 2016	611,794	5,238	617,032
Additions	14,509	89	14,598
Capitalized G&A	867	—	867
Changes to decommissioning assets	(874)	—	(874)
Capitalized share-based compensation	132	—	132
Balance – March 31, 2017	**626,428**	**5,327**	**631,755**
Accumulated depletion and depreciation			
Balance – December 31, 2016	(104,731)	(4,878)	(109,609)
Depletion and depreciation	(9,620)	(70)	(9,690)
Balance – March 31, 2017	**(114,351)**	**(4,948)**	**(119,299)**
Carrying amounts			
Balance – December 31, 2016	507,063	360	507,423
Balance – March 31, 2017	**512,077**	**379**	**512,456**

During the three months ended March 31, 2017, the Company recorded $9,505 (2016 – $9,057) of depletion and $115 (2016 – $462) of depreciation related to its Orion oil sands project. The Company included $1,499,000 of future development costs associated with proved and probable reserves in its depletion calculation for the three months ended March 31, 2017 (2016 – $1,610,699).

(Unaudited, Expressed in thousands of Canadian dollars)

6. Exploration, Evaluation and Other Intangible Assets

	Exploration and evaluation assets	Other Intangible assets	Total
Cost			
Balance – December 31, 2016	482,157	416	482,573
Additions	416	—	416
Capitalized G&A	14	—	14
Changes to decommissioning assets	16	—	16
Capitalized share-based compensation	2	—	2
Capitalized depreciation	395	—	395
Balance – March 31, 2017	**483,000**	**416**	**483,416**
Accumulated depletion, depreciation and impairment			
Balance – December 31, 2016	(403,812)	(251)	(404,063)
Depletion and depreciation	(395)	(5)	(400)
Balance – March 31, 2017	**(404,207)**	**(256)**	**(404,463)**
Carrying amounts			
Balance – December 31, 2016	78,345	165	78,510
Balance – March 31, 2017	**78,793**	**160**	**78,953**

7. Deferred Taxes

The Company's net deferred tax asset resides in the OPC legal entity and is comprised of the following, which are classified by source of temporary differences:

	March 31, 2017	December 31, 2016
Non-capital losses	61,873	55,412
Petroleum & natural gas properties	(539)	2,511
Decommissioning liabilities	393	358
Risk management contracts	474	3,322
Unrealized foreign exchange on account of capital	(36,161)	(35,337)
Unrecognized deferred tax assets	8,062	7,282
Deferred tax asset	34,102	33,548

As at March 31, 2017, the Company had approximately $1,082,029 (December 31, 2016 – $1,066,661) in consolidated available tax pools, including operating loss carry forwards for income tax purposes in the amount of $445,424 (December 31, 2016 – $424,845) which are available to offset future taxable income. These operating losses start to expire in 2031.

(Unaudited, Expressed in thousands of Canadian dollars)

The provision for income taxes reported differs from the amounts computed by applying the cumulative federal and provincial income tax rates to the income before tax provision due to the following:

For the three months ended March 31,	2017	2016
Loss before income taxes	3,045	(4,036)
Statutory tax rate	27%	27%
	822	(1,090)
Permanent differences	(334)	(2,328)
Stock based compensation	262	115
Change in unrecognized deferred tax assets	(1,478)	(2,148)
Other	174	63
Deferred tax recovery	(554)	(5,388)

The Canadian statutory tax rate from the rate reconciliation above represents the combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the Alberta provincial tax rate is 12.0%.

8. Provision

Provision for onerous contract

During the three months ended March 31, 2016, the Company recognized a provision for an onerous contract related to its Calgary head office lease. At March 31, 2017, the total provision was $2,786 of which $1,253 was recorded within accounts payable, accrued liabilities and provision, and $1,533 as a non-current provision.

	Three months ended March 31, 2017
Balance – beginning of period	3,005
Change in estimated future cash flows	(1)
Liabilities settled	(224)
Accretion	6
Balance – end of period	2,786
Less: current portion of provision	1,253
Non-current portion of provision	1,533

The provision represented the present value of the difference between the estimated minimum future lease payments that the Company is obligated to make under the lease until its expiry on March 31, 2019, less estimated sublease recoveries. At March 31, 2017, these cashflows were discounted using a risk-free discount rate of 0.9% (December 31, 2016 – 0.8%). This estimate may fluctuate in future periods as a result of changes in estimated sublease recoveries and actual lease payments.

(Unaudited, Expressed in thousands of Canadian dollars)

9. Long-term Debt

	March 31, 2017	December 31, 2016
Senior secured term loan – US$	204,750	205,275
Period end exchange rate – US$1 = C$	1.3319	1.3442
Senior secured term loan – C$	272,707	275,931
Less: unamortized deferred debt issue costs	(6,717)	(7,163)
	265,990	268,768
Less: current portion of long-term debt	(2,797)	(2,823)
Long-term debt	263,193	265,945

During the three months ended March 31, 2017 and 2016, the Company made scheduled principal repayments totaling US$525 (2017 – C$699, 2016 – C$683) on the term loan. During the three months ended March 31, 2017, $446 (2016 – $419) of deferred debt issue costs were amortized against the loan balance.

The fair market value of the Company's long-term debt as at March 31, 2017 was approximately $232,150 (December 31, 2016 – $208,889), compared with a carrying amount of $272,707 (December 31, 2016 – $275,931). The fair market value measurement is categorized as level 2 as it is based on quoted prices in inactive markets.

As at March 31, 2017 and December 31, 2016, the revolving loan was undrawn. The senior secured credit facilities are subject to certain covenants by OPC, including maintaining minimum ratios of asset values to net senior secured debt. OPC was in compliance with all loan covenants as at March 31, 2017 and December 31, 2016.

10. Decommissioning Liabilities

	Three months ended March 31, 2017
Balance – beginning of period	31,861
Liabilities incurred	264
Changes to discount rates	1,097
Changes in estimates	(2,219)
Settlements	(277)
Accretion	164
Balance – end of period	30,890

As at March 31, 2017, the Company estimated that the expenditures required to settle the decommissioning liabilities will be made over the next 38 years with the majority of payments being made around 2045. As at March 31, 2017, the Company used discount rates ranging from 0.8% to 2.3% (December 31, 2016 – 0.7% to 2.3%) based on the Bank of Canada’s long-term risk-free bond rate and an inflation rate of 1.6% (December 31, 2016 – 1.8%) to calculate the present value of the decommissioning liabilities.

11. Share Capital

(a) Authorized

Unlimited number of voting common shares without nominal or par value.

(b) Callable common share purchase warrants

In connection with previous equity financings, the Company issued callable common share purchase warrants to investors who concurrently subscribed for an equivalent number of common shares.

On December 31, 2016, the Company called all of the 8,000,000 then outstanding common share purchase warrants with an exercise price of $12.50 per warrant and the related proceeds of $100,000 were received in February of 2017.

(c) Stock options

A summary of the changes in options outstanding under the stock option plan is as follows:

	Three months ended March 31, 2017	
	Number of options (000s)	Weighted average exercise price
Balance – beginning of period	5,578	3.02
Forfeited	(20)	2.91
Balance – end of period	5,558	3.02

The following is a summary of the number of stock options outstanding and exercisable as at March 31, 2017:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	75	75	3.8 years
$1.00	25	25	3.8 years
$2.25	4,271	2,135	5.0 years
$3.00	564	564	3.8 years
$8.11	170	170	2.1 years
$9.00	453	440	3.9 years
	5,558	3,409	4.6 years

On March 30, 2017, the Company's Board of Directors approved a grant of up to 0.6 million stock options to employees, officers, and directors. It is expected that the stock options will be issued in the second quarter of 2017.

(d) Performance warrants

At March 31, 2017 and December 31, 2016, the Company had 11,895 vested and exercisable performance warrants outstanding at an exercise price of $0.15 per performance warrant. All unexercised performance warrants expire in October 2018.

(Unaudited, Expressed in thousands of Canadian dollars)

(e) Restricted Share Units ("RSUs") and Performance Share Units ("PSUs")

Notwithstanding the Board's discretion to settle vested units in cash or with shares, according to the terms of the share unit plan, a unitholder may elect to receive up to 50 percent of their vested units in the form of a cash payment. The Company therefore treats the share units 50% equity-settled and 50% cash-settled.

As at March 31, 2017 and December 31, 2016, there were 1,236,955 RSUs and 1,955,820 PSUs outstanding.

As at March 31, 2017, the Company's share unit liabilities for those RSUs and PSUs expected to be settled in cash were recorded using an estimated fair value of $2.25 per share unit (December 31, 2016 – $2.25).

As at March 31, 2017, $171 of the Company's share unit liabilities were classified as current (December 31, 2016 – $113), relating to those RSUs and PSUs scheduled to vest in the next twelve months, while $1,488 (December 31, 2016 – $1,180) were classified as non-current.

On March 30, 2017, the Company's Board of Directors approved a grant of up to 0.9 million RSUs and 1.2 million PSUs to employees, officers, and directors. It is expected that the RSUs and PSUs will be issued in the second quarter of 2017.

(f) Contributed surplus

The table below summarizes activity in the contributed surplus account (excludes share-based compensation associated with share units expected to be settled in cash, which is reported as a liability on the consolidated statement of financial position):

For the three months ended March 31,	2017
Balance – beginning of period	61,654
Share-based compensation	737
Balance – end of period	62,391

(g) Per share amounts

The table below summarizes the weighted average number of common shares outstanding used in the calculation of basic and diluted loss per common share:

(thousands)	Three months ended March 31, 2017
Weighted average common shares outstanding	127,623
Effect of dilutive securities	1,063
Weighted average common shares outstanding, diluted	128,686

Basic net income per share was calculated using the weighted average number of shares outstanding for the period. The Company uses the treasury stock method to calculate net income per share. The calculation of diluted weighted average common shares excludes shares related to stock options and warrants that are anti-dilutive. For the three month periods ended March 31, 2017 and 2016, the Company's net income per share did not differ from diluted earnings per share.

(Unaudited, Expressed in thousands of Canadian dollars)

12. Net Finance Costs

For the three months ended March 31,	2017	2016
Interest expense, long-term debt (note 9)	4,515	4,736
Amortization of deferred transaction costs (note 9)	446	419
Interest income	(373)	(268)
Realized foreign exchange loss (gain)	35	(76)
Net finance costs	4,623	4,811

13. Contractual Obligations and Commitments

The information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations for its oil sands properties and its general corporate activities as at March 31, 2017.

	Total	2017	2018	2019	2020+
Contracts and purchase orders (1)	13,492	12,933	529	10	20
Transportation agreements (2)	34,861	4,167	7,153	6,585	16,956
Operating leases (3)	3,921	1,592	1,805	476	48
Outstanding share units (4)	3,176	20	44	3,112	—
Interest and fees on term loan (5)	59,593	13,658	17,942	17,732	10,261
Repayment of term loan (5)	272,707	2,098	2,797	2,797	265,015
Total	387,750	34,468	30,270	30,712	292,300

(1) Contracts and purchase orders including commitments relating to the Orion expansion projects and costs for the storage of the evaporators procured for use at Taiga.
(2) Firm service gas and bitumen blend transportation commitments.
(3) Future commitments for the head office leases and field vehicles. The amounts reported are net of expected settlements of the onerous lease provision on the consolidated statement of financial position.
(4) Unaccrued fair value of outstanding share units expected to be settled for cash.
(5) Minimum obligations under the term loan using the foreign exchange and interest rates in effect at March 31, 2017.

14. Supplemental Cash Flow Information

For the three months ended March 31,	2017	2016
Changes in non-cash operating working capital		
Accounts receivable	781	(243)
Prepaid expenses and other assets	6	188
Accounts payable and accrued liabilities	3,469	(1,111)
	4,256	(1,166)
Changes in non-cash investing working capital		
Accounts receivable	—	(827)
Accounts payable and accrued liabilities	982	(5,138)
	982	(5,965)
Supplemental cash flow information		
Cash interest earned	360	247

Corporate Information

Directors

Richard (Rick) George, OC - Chairman
Retired CEO and Director, Suncor Energy Inc.
Partner, Novo Investment Group

Angelo Acconcia
Senior Managing Director, Blackstone Capital Partners and Blackstone Energy Partners

Vincent Chahley
Independent Businessman

George Crookshank
Independent Businessman

William A. Friley
Independent Businessman

David Krieger
Managing Director, Warburg Pincus LLC

Gary Levin
Managing Director, Blackstone Capital Partners and Blackstone Energy Partners

Francesco Mele
Partner, Azimuth Capital Management

Brian Reinsborough
President and Chief Executive Officer, Venari Resources LLC

Steve Spence
President and Chief Executive Officer, Osum Oil Sands Corp.

Officers

Steve Spence, P.Eng.
President and CEO

Victor Roskey
Chief Financial Officer

Rick K. Walsh, P.Eng.
Chief Operating Officer

Dr. Peter Putnam, P.Geol.
Sr. Vice President, Geoscience

Dr. Jen Russel-Houston, P.Geol
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