Osum Oil Sands Corp.

Q1 2018 Interim Report to Shareholders

Dated May 3, 2018

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Review and Outlook

Q1 2018 Review

Orion Phase 2BC is in execution and on track to deliver significant increased production over the next 24 months. The scope of the project includes the installation of new processing facilities and infrastructure to provide sufficient water processing and steam generating capacity to support production from 18 new horizontal SAGD well pairs, bringing production to 18,000 bbl/d by late 2019.

Phase 2BC is progressing safely and in line with expectation. A second SAGD rig was mobilized in January 2018 and drilling is proceeding on multiple pads simultaneously. Construction activities in the Central Processing Facility are well advanced, with major activities such as the evaporator lifts complete. Overall, the project is on schedule and budget and at March 31, 2018 was approaching 50% completion.

Operating results in the first quarter were generally in line with internal targets, but financial results were negatively impacted by a significant widening of the light/heavy oil price differential and by higher blending costs. Despite capital spending of $58.8 million focused mainly on the Orion expansion projects, Osum maintained a strong liquidity position with $181.8 million of cash on hand and net working capital of $151.7 million (excluding net unrealized hedging liabilities and deferred consideration) at March 31, 2018.

Production

Average production at Orion in the quarter of 8,880 bbl/d was consistent with expectation but down 5% from the prior quarter's average of 9,306 bbl/d. The decrease was mainly due to production from three Phase 2A well pairs leveling off to their forecast levels from the early flush production seen in Q4 2017.

Operating netback

Osum generated an operating netback in the period of $7.5 million or $9.43/bbl, compared with $21.3 million or $24.84/bbl in the prior quarter. Including realized net financial hedging gains, the netback in the first quarter was $9.6 million or $11.96/bbl, compared with $18.0 million or $21.03/bbl in the prior quarter. The following positive and negative factors contributed to the lower overall total and per unit netbacks:

- The average index price of US-dollar West Texas Intermediate ("WTI") oil increased by 14% to US $62.89/bbl from the prior quarter. However, this benefit was more than offset by a significant widening of the light/heavy oil price differential, leading to the average index price of Cold Lake Blend in Canadian dollars being $6.74/bbl or 12% lower than the prior quarter. Osum's realized bitumen price on a barrel of production basis was further eroded by a higher seasonal blending ratio and higher costs per barrel of condensate, which trended with the higher WTI price. As a result, the average realized bitumen price in the quarter was $27.92/bbl, down $14.90/bbl or 35% from $42.82/bbl the prior quarter.
- Average royalties of $2.17/bbl or 7.8% of bitumen sales compared with $2.77/bbl or 6.5% of bitumen sales in the prior quarter. The lower unit cost was mainly driven by lower bitumen pricing in the quarter, which led to lower bitumen sales and a lower gross overriding royalty. The higher royalty rate in the quarter resulted from a higher crown royalty rate, which was determined using the average C$ WTI price.

- Average total operating costs of $16.32/bbl were 7% or $1.11/bbl higher than the prior quarter.
    - Average non-fuel operating costs of $12.63/bbl were generally consistent with $12.58/bbl in the fourth quarter.
    - Average fuel costs of $3.69/bbl were 40% or $1.06/bbl higher than the prior quarter due mainly to an increase in the average AECO gas index price and slightly lower steam generation efficiency.
- Realized net gains on financial hedges totaled $2.0 million or $2.53/bbl, compared with net losses of $3.3 million or $3.81/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the quarter were $58.8 million, of which $57.6 million related to the Orion expansion projects.
- Net general and administrative expenses were $3.5 million, consistent with $3.6 million in the prior quarter.
- Net unrealized hedging liabilities totaled $17.6 million at March 31, 2018, due mainly to the strengthening of WTI future oil prices since the time that the outstanding hedges were put in place.

Outlook

While headline WTI prices have increased steadily over the past several quarters, a series of external events that occurred late in 2017 resulted in a build up of heavier crudes in the province, depressing the Alberta market price. Those events included the start-up of the Fort Hills project that added barrels to an increasingly saturated market, a spill on the Keystone pipeline that restricted export capacity, and the inability or unwillingness of rail companies to step in to bridge the transportation gap. The result was a more than doubling of the differential between WTI and Cold Lake Blend in US dollars over the course of the quarter to an average of US$25.36/bbl in Q1 2018 compared with US$12.37/bbl in Q4 2017. Despite the Company's active hedging program, which absorbed some of the impact, that dynamic of rising WTI prices being more than offset by widening differentials had disproportionately negative impacts on Osum's realized bitumen price and netback as both the cost of diluent and the crown royalty rate are tethered to WTI, not heavy oil or Cold Lake blend.

More recently, heavy oil differentials have narrowed as producers have restricted supplies and shipments by rail have increased. Longer term, the situation is expected to improve further as additional pipeline capacity from several projects should ease capacity constraints and bring differentials back to historical levels.

As mentioned, Orion Phase 2BC is progressing as expected, with first steam into six of the new well pairs planned for mid-year. Average production in the second quarter will be impacted by the planned 4-day turnaround that occurred in late April for facility tie-ins, which was completed safely and successfully.

Finally, at the Company's Annual General Meeting on May 3, 2018, Osum welcomed Roy Ben-Dor of Warburg Pincus to its Board of Directors, replacing David Krieger. Osum thanks Mr. Krieger for his significant contributions to the Board over the past nine years.

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, 2017.

For the three months ended	March 31, 2018	December 31, 2017	March 31, 2017
Business Environment [(1)]			
West Texas Intermediate (WTI) – US$/bbl	62.89	55.02	51.86
Cold Lake Blend (CLB) – US$/bbl	37.53	42.65	36.34
Differential – WTI less CLB – US$/bbl	25.36	12.37	15.52
Differential – CLB % of WTI	40.3%	22.5%	29.9%
Foreign exchange rate – C$/US$	1.2653	1.2716	1.3234
CLB – $/bbl	47.49	54.23	48.09
AECO – $/mcf	2.07	1.69	2.70
Operational [(1)] [(2)]			
Bitumen production – bbl/d	8,880	9,306	7,654
Blended bitumen sales – bbl/d	12,509	12,961	10,564
Blended bitumen sales less diluent and transportation costs – $/bbl	27.92	42.82	36.03
Royalties – $/bbl	(2.17)	(2.77)	(1.06)
Non-fuel operating costs – $/bbl	(12.63)	(12.58)	(13.67)
Fuel costs – $/bbl	(3.69)	(2.63)	(5.28)
Netback [(3)] – $/bbl	9.43	24.84	16.02
Realized gain (loss) on financial risk management contracts – $/bbl	2.53	(3.81)	(2.49)
Adjusted netback [(3)] – $/bbl	11.96	21.03	13.53
Financial			
Netback [(3)]	7,538	21,273	11,036
Adjusted netback [(3)]	9,557	18,013	9,318
Funds flow [(4)]	962	10,511	748
Cash flows from operating activities	587	6,143	1,909
Net and comprehensive income (loss)	(39,939)	(179,652)	3,599
Net income (loss) per share (basic) – $	(0.30)	(1.37)	0.03
Capital investment [(5)]	58,760	31,759	15,895
General and administrative expenses (net) [(6)]	3,454	3,558	3,883
Cash and cash equivalents [(7)]	181,828	230,463	172,910
Adjusted working capital [(8)]	151,699	213,161	160,706
Outstanding principal – long-term debt [(9)]	258,669	252,812	269,910
Shareholders' equity	308,432	328,639	487,686
Weighted average common shares outstanding	130,981	130,962	127,623

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) 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.
(4) 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.
(5) Capital investment includes capitalized general and administrative expenses but excludes capitalized stock-based compensation expense.
(6) General and administrative expenses (net) is calculated after reductions for capitalized salaries and benefits, onerous lease payments and exploration costs.
(7) Cash and cash equivalents include restricted cash.
(8) Adjusted working capital is calculated as working capital adjusted to exclude the current portions of 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, and deferred consideration, which is not cash-settled.
(9) 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 Canadian dollars at the period-end foreign exchange rate and presented before unamortized transaction costs.

Auditor Review

The accompanying unaudited interim consolidated financial statements of Osum Oil Sands Corp. ("the Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Osum Oil Sands Corp.

Consolidated Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	167,892	217,007
Restricted cash	13,936	13,456
Accounts receivable	18,942	24,003
Financial risk management contracts (note 5)	15,336	9,015
Prepaid expenses and other assets	2,067	1,909
Total current assets	218,173	265,390
Non-current assets:		
Property, plant and equipment (note 6)	458,689	404,704
Exploration, evaluation and other intangible assets (note 7)	27,855	27,624
Deferred tax asset	43,975	34,454
Financial risk management contracts (note 5)	454	1,669
Abandonment deposits	337	336
Total assets	**749,483**	**734,177**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provision (note 8)	45,364	40,410
Financial risk management contracts (note 5)	25,921	8,275
Current portion of long-term debt (note 9)	2,709	2,640
Current portion of deferred consideration (note 13)	1,982	1,336
Share unit liabilities (note 11)	3,065	164
Total current liabilities	79,041	52,825
Non-current liabilities:		
Long-term debt (note 9)	253,814	247,487
Deferred consideration (note 13)	61,528	62,711
Decommissioning liabilities (note 10)	38,105	36,176
Share unit liabilities (note 11)	1,077	3,306
Financial risk management contracts (note 5)	7,486	2,730
Provision (note 8)	—	303
Total non-current liabilities	362,010	352,713
Shareholders' equity		
Common shares (note 11)	1,032,412	1,032,277
Contributed surplus (note 11)	64,332	63,777
Cumulative deficit	(788,312)	(767,415)
Total shareholders' equity	308,432	328,639
Total liabilities and shareholders' equity	**749,483**	**734,177**

Contractual obligations and commitments (note 15)

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

Vincent Chahley
Director

George Crookshank
Director

Osum Oil Sands Corp.

Consolidated Statements of Net and Comprehensive Loss

(Unaudited, expressed in thousands of Canadian dollars, except share and per share amounts)

For the three months ended March 31,	**2018**	**2017**
Revenue:		
Blended bitumen sales (note 12)	51,975	45,338
Deferred consideration (note 13)	2,054	—
Royalties	(1,737)	(730)
Revenue net of royalties	52,292	44,608
Gain (loss) on financial risk management contracts (note 5)	(15,278)	8,832
Revenue net of gain or loss on financial risk management contracts	37,014	53,440
Expenses:		
Diluent and transportation	29,662	20,519
Operating expenses	13,038	13,053
Depletion and depreciation (notes 6, 7)	7,304	9,695
General and administrative expenses	3,454	3,883
Share-based compensation expense (note 11)	1,396	969
Exploration costs	4	9
Onerous contract recovery (note 8)	(1)	(1)
Total expenses	54,857	48,127
Other expenses (income):		
Net finance costs (note 14)	5,769	4,623
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	6,603	(2,525)
Accretion (notes 8, 10)	203	170
Total other expenses	12,575	2,268
Net income (loss) before taxes	**(30,418)**	**3,045**
Deferred income tax recovery	(9,521)	(554)
Net and comprehensive income (loss)	**(20,897)**	**3,599**
Net income (loss) per share, basic and diluted (note 11)	($0.16)	$0.03
Weighted average number of common shares outstanding (thousands):		
Basic	130,981	127,623
Diluted	133,309	128,686

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, 2018	130,963	1,032,277	63,777	(767,415)	328,639
Net loss for the period	—	—	—	(20,897)	(20,897)
Share-based compensation	—	—	690	—	690
Share issuance on settlement of share units	25	135	(135)	—	—
Balance – March 31, 2018	**130,988**	**1,032,412**	**64,332**	**(788,312)**	**308,432**
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 warrants	8,000	100,000	—	—	100,000
Balance – March 31, 2017	**130,914**	**1,032,094**	**62,391**	**(606,799)**	**487,686**

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,	2018	2017
Cash provided by (used in)		
Operating activities:		
Net income (loss) for the period	(20,897)	3,599
Items not involving cash:		
Depletion and depreciation (notes 6, 7)	7,304	9,695
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	6,603	(2,525)
Shared-based compensation expense (note 11)	1,396	969
Amortization of deferred transaction costs (note 9)	470	446
Accretion (notes 8,10)	203	170
Interest expense – deferred consideration (note 13)	1,517	—
Change in fair value of financial risk management contracts (note 5)	17,297	(10,550)
Onerous contract recovery (note 8)	(1)	(1)
Deferred income tax recovery	(9,521)	(554)
Deferred consideration	(2,054)	—
Settlements of onerous contract (note 8)	(292)	(224)
Settlements of share unit liabilities (note 11)	(162)	—
Settlements of decommissioning liabilities (note 10)	(901)	(277)
Funds flow from operating activities before changes in non-cash working capital	962	748
Change in non-cash operating working capital (note 16)	(375)	1,161
Total cash flows from operating activities	**587**	**1,909**
Investing activities:		
Property, plant and equipment expenditures (note 6)	(58,671)	(15,465)
Investment in exploration, evaluation and other intangible assets (note 7)	(89)	(430)
Change in abandonment deposits	(1)	(7)
Change in non-cash investing working capital (note 16)	10,216	4,077
Total cash used in investing activities	**(48,545)**	**(11,825)**
Financing activities:		
Proceeds from share issuance (net of costs) (note 11)	—	100,000
Principal repayments of long-term debt (note 9)	(677)	(699)
Total cash flows from (used in) financing activities	**(677)**	**99,301**
Increase (decrease) in cash in period	(48,635)	89,385
Cash and cash equivalents – beginning of period	217,007	72,333
Restricted cash – beginning of period	13,456	11,192
Cash and cash equivalents – end of period	**167,892**	**161,722**
Restricted cash – end of period	**13,936**	**11,188**

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 are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These 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, 2017.

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, 2017.

These interim unaudited 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 consolidated financial statements were authorized for issue by the Board of Directors on May 3, 2018.

3. New Accounting Standards

(a) International Financial Reporting Standard ("IFRS") 15 – Revenue from contracts with customers

The Company adopted IFRS 15 - *Revenue from contracts with customers* effective January 1, 2018. IFRS 15 was issued in May of 2014 and replaces IAS 18 - Revenue, IAS 11 - Construction Contracts, and related interpretations. IFRS 15 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 analysis of transactions to determine the nature of an entity's obligation to perform and whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which can affect the amount and/or timing of revenue recognized.

The new standard only applies to contracts with customers and does not apply to insurance contracts, financial instruments or lease contracts, which fall within the scope of other IFRSs.

The Company has applied IFRS 15 to all of its contracts with customers using the modified retrospective approach. Under this method, IFRS 15 is applied to contracts initiated after the effective date and contracts that have remaining obligations as of the effective date. Using the approach, prior period consolidated financial statements are not restated. Rather, a single adjustment is made to retained earnings or cumulative deficit at the beginning of the initial period of adoption for the effect of any changes resulting from the application of IFRS 15.

Blended bitumen sales

With respect to the Company's revenue from contracts with customers that purchase its blended bitumen, there were no differences between the quarterly and annual results reported in 2017 under IAS 18 and those reportable under IFRS 15, and the effect on the Company's cumulative deficit for these contracts on January 1, 2018 was nil. See note 4 for the Company's accounting policy with respect to the recognition of revenue from blended bitumen sales and note 12 for additional disclosure related to the Company's revenue from contracts with these customers.

Deferred consideration

As described in the Company's annual consolidated financial statements for the year ended December 31, 2017, on September 29, 2017 the Company sold a 4.0% gross overriding royalty ("GORR") interest on its Orion property for cash proceeds of $92,500, before transaction costs.

Under the sale agreement, the proceeds are to be used for the development of the Orion property. On the transaction closing date, the Company recorded deferred consideration of $64,400, representing the portion of proceeds attributable to upfront payment received for costs expected to be incurred by the Company in relation to future production of the royalty owner's 4.0% share of proved plus probable ("2P") reserves. The Company has assessed the accounting treatment of the GORR sale and determined that it is consistent with the requirements of IFRS 15. The deferred consideration is considered a contract liability under IFRS 15.

From September 29, 2017 to December 31, 2017, deferred consideration was amortized to revenue based on the ratio of production in the period to estimated proved plus probable reserves at the beginning of the period.

The Company's assessment of IFRS 15 has determined that the deferred consideration implicitly contains a financing component as payment was received in advance of the Company's incurrence of any costs related to production of the royalty owner's share of 2P reserves. The imputed interest expense resulting from the financing component should be recorded and the associated implied interest benefit should be added to the amount of deferred consideration. The Company assessed the net impact of the imputed interest expense and revenue that would have been recorded under IFRS 15 from September 29, 2017 to December 31, 2017 and determined that it was not material to the consolidated financial statements. The immaterial prior year net impact was recorded in the three months ended March 31, 2018. See note 4 for the Company's accounting policy with respect to the recognition of revenue from deferred consideration, as well as note 13 for additional disclosure.

(b) IFRS 9 – Financial instruments

The Company adopted IFRS 9 - *Financial Instruments* effective January 1, 2018. The transition to IFRS 9 had no material effect on the Company's consolidated financial statements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IFRS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

With respect to impairment of financial assets, IFRS 9 replaces the "incurred loss" model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. The ECL model applies to the Company's accounts receivable. All but a nominal amount of the Company's accounts receivable related to blended bitumen sales and are expected to be received within 30 days. The application of the new impairment model therefore did not have a material impact on Company's financial assets.

Cash and cash equivalents, restricted cash, accounts receivable, abandonment deposits, accounts payable and accrued liabilities, and long-term debt continue to be measured at amortized cost and are now classified as amortized cost. There were no changes to the Company's classifications of financial risk management assets and liabilities and share unit liabilities as FVTPL. The Company has not designated any financial instruments as FVOCI, nor does the Company use hedge accounting.

(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.

(Unaudited, expressed in thousands of Canadian dollars)

4. 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, 2017 with the exception of the following:

Revenue recognition of blended bitumen sales

Revenue from the sale of blended bitumen is measured based on the consideration specified in contracts with customers. The Company recognizes revenue upon satisfaction of its performance obligations, which is at the time the customer obtains legal title to the blended bitumen.

Revenue recognition of deferred consideration

Revenue associated with the recognition of deferred consideration related to the sale of gross overriding royalty interests is recorded based on the actual capital expenditures, operating expenses, abandonment costs and crown royalties incurred in the period related to the royalty owner's share of production relative to the total of those costs for the royalty owner's share of 2P reserves. Forecast costs are as estimated in the most recent independent reserve engineering report, which is prepared at least annually.

5. 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,	2018	2017
Realized gain (loss)	2,019	(1,718)
Change in fair value	(17,297)	10,550
Gain (loss) on financial risk management contracts	(15,278)	8,832

The following financial risk management contracts were in place as at March 31, 2018, and the related fair values were recorded on the consolidated statement of financial position:

Contract	Notional	Price	Remaining Term	Fair Value
Swap – WTI/WCS differential	3,660 bbl/d	$(19.70)	Apr 1/18 - Jun 30/18	3,112
Swap – WTI/WCS differential	3,240 bbl/d	$(22.70)	Apr 1/18 - Dec 31/18	5,012
Swap – WTI/WCS differential	3,974 bbl/d	$(19.18)	Jul 1/18 - Sep 30/18	2,700
Swap – WTI/WCS differential	1,646 bbl/d	$(20.86)	Oct 1/18 - Dec 31/18	1,289
Swap – WTI/WCS differential	6,096 bbl/d	$(22.92)	Jan 1/19 - Mar 31/19	2,783
Swap – WTI/WCS differential	1,616 bbl/d	$(21.39)	Apr 1/19 - Jun 30/19	455
Total unrealized financial risk management assets				15,351

(Unaudited, expressed in thousands of Canadian dollars)

Contract	Notional	Price	Remaining Term	Fair Value
Swap – WTI	2,729 bbl/d	$62.54	Apr 1/18 - Jun 30/18	(5,190)
Swap – WTI	2,375 bbl/d	$73.50	Apr 1/18 - Dec 31/18	(5,181)
Swap – WTI	2,968 bbl/d	$65.84	Jul 1/18 - Sep 30/18	(4,277)
Swap – WTI/WCS differential	400 bbl/d	$(30.25)	Oct 1/18 - Mar 31/19	(114)
Swap – WTI/WCS differential	1,100 bbl/d	$(31.13)	Oct 1/18 - Jun 30/19	(1,153)
Swap – WTI/WCS differential	3,025 bbl/d	$(28.72)	Oct 1/18 - Sep 30/19	(2,288)
Swap – WTI	4,598 bbl/d	$69.48	Oct 1/18 - Dec 30/18	(4,099)
Swap – WTI	7,860 bbl/d	$68.83	Jan 1/19 - Mar 31/19	(6,116)
Swap – WTI	4,247 bbl/d	$69.31	Apr 1/19 - Jun 30/19	(2,540)
Swap – WTI	4,480 bbl/d	$69.86	Jul 1/19 - Sep 30/19	(1,883)
Swap – WTI/WCS differential	3,025 bbl/d	$(25.22)	Jul 1/19 - Sep 30/19	(127)
Total unrealized financial risk management liabilities				(32,968)

The fair market value measurements are categorized as level 2 as they are based on quoted WTI and WTI/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 loss before taxes related to changes in the fair value of financial risk management contracts in place as at March 31, 2018:

Price or rate	Change	Impact on net loss before taxes
WTI	$1.00/bbl	3,104
WTI/WCS differential	$1.00/bbl	4,192

Subsequent to March 31, 2018, the Company entered into financial risk management contracts with the following terms:

Contract	Notional	Price	Term
Swap – WTI/WCS differential	1,200 bbl/d	$(25.18)	Apr 1/19 - Jun 30/19
Swap – WTI	1,350 bbl/d	$76.71	Apr 1/19 - Jun 30/19
Swap – WTI/WCS differential	1,200 bbl/d	$(25.83)	Apr 1/19 - March 31/20
Swap – WTI	450 bbl/d	$71.94	Apr 1/19 - March 31/20
Swap – WTI	450 bbl/d	$75.25	Jul 1/19 - Sep 30/19
Swap – WTI/WCS differential	1,200 bbl/d	$(25.55)	Oct 1/19 - Dec 31/19
Swap – WTI	1,350 bbl/d	$73.32	Oct 1/19 - Dec 31/19
Swap – WTI/WCS differential	450 bbl/d	$72.20	Jan 1/20 - Mar 31/20

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.

(Unaudited, expressed in thousands of Canadian dollars)

6. Property, Plant and Equipment

	Development and production assets	Corporate assets	Total
Cost			
Balance – December 31, 2017	674,541	5,372	679,913
Additions	57,959	14	57,973
Capitalized general and administrative expenses	698	—	698
Capitalized share-based compensation	122	—	122
Changes to decommissioning assets	2,491	—	2,491
Balance – March 31, 2018	**735,811**	**5,386**	**741,197**
Accumulated depletion, depreciation and impairment			
Balance – December 31, 2017	(270,097)	(5,112)	(275,209)
Depletion and depreciation	(7,277)	(22)	(7,299)
Balance – March 31, 2018	**(277,374)**	**(5,134)**	**(282,508)**
Carrying amounts			
Balance – December 31, 2017	404,444	260	404,704
Balance – March 31, 2018	**458,437**	**252**	**458,689**

During the three months ended March 31, 2018, the Company recorded $7,162 (2017 – $9,505) of depletion and $115 (2017 – $115) of depreciation related to its Orion oil sands project. The Company included $1,120,000 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended March 31, 2018 (2017 – $1,499,000).

(Unaudited, expressed in thousands of Canadian dollars)

7. Exploration, Evaluation and Other Intangible Assets

	Exploration and evaluation assets	Other Intangible assets	Total
Cost			
Balance – December 31, 2017	481,457	416	481,873
Additions (recoveries)	63	—	63
Capitalized depreciation	345	—	345
Capitalized general and administrative expenses	26	—	26
Capitalized share-based compensation	4	—	4
Changes to decommissioning assets	143	—	143
Balance – March 31, 2018	**482,038**	**416**	**482,454**
Accumulated depreciation and impairment			
Balance – December 31, 2017	(453,977)	(272)	(454,249)
Depletion and depreciation	(345)	(5)	(350)
Balance – March 31, 2018	**(454,322)**	**(277)**	**(454,599)**
Carrying amounts			
Balance – December 31, 2017	27,480	144	27,624
Balance – March 31, 2018	**27,716**	**139**	**27,855**

8. Provision

Provision for onerous contract

At March 31, 2018, the total provision for an onerous lease contract related to the Company's Calgary head office lease was $1,224 (December 31, 2017 – $1,511), all of which (December 31, 2017 – $1,208) was recorded within accounts payable, accrued liabilities and provision. At December 31, 2017, $303 was recorded as a non-current provision.

	Three months ended March 31, 2018
Balance – beginning of period	1,511
Change in estimated future cash flows	(2)
Liabilities settled	(292)
Accretion	7
Balance – end of period	1,224

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, 2018, these cashflows were discounted using a risk-free discount rate of 1.8% (December 31, 2017 – 1.7%). 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, 2018	December 31, 2017
Senior secured term loan – US$	202,650	203,175
Period end exchange rate – US$1 = C$	1.2898	1.2573
Senior secured term loan – C$	261,378	255,452
Less: unamortized deferred debt issue costs	(4,855)	(5,325)
	256,523	250,127
Less: current portion of long-term debt	(2,709)	(2,640)
Long-term debt	253,814	247,487

During the three months ended March 31, 2018 and 2017, the Company made scheduled principal repayments totaling US$525 (2018 – C$677, 2017 – C$699) on the term loan. During the three months ended March 31, 2018, $470 (2017 – $446) 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, 2018 was approximately $230,229 (December 31, 2017 – $227,068), compared with a carrying amount of $261,378 (December 31, 2017 – $255,452). The fair market value measurement is categorized as level 2 as it is based on quoted prices in inactive markets.

As at March 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017.

10. Decommissioning Liabilities

	Three months ended March 31, 2018
Balance – beginning of period	36,176
Liabilities incurred	2,133
Liabilities settled	(901)
Changes to discount rates	229
Changes in estimates	272
Accretion	196
Balance – end of period	38,105

As at March 31, 2018, the Company estimated that the expenditures required to settle the decommissioning liabilities will be made over the next 37 years with the majority of payments being made around 2045. As at March 31, 2018, the Company used discount rates ranging from 1.8% to 2.2% (December 31, 2017 – 1.7% to 2.3%) based on the Bank of Canada’s risk-free bond rates and an inflation rate of 1.7% (December 31, 2017 – 1.7%) to calculate the present value of the decommissioning liabilities.

(Unaudited, expressed in thousands of Canadian dollars)

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 1, 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

During the first quarter of 2018, the Company's Board of Directors approved the issuance of 544,900 stock options to officers and directors with an effective grant date of March 13, 2018. The stock options expire six years from the grant date and vest in four equal tranches: 25% on the grant date and 25% on each of the three subsequent anniversary dates. A fair value of $1.13 per stock option was estimated on the grant date based on the following assumptions:

Assumption	
Share price on grant date	$ 2.50
Exercise price	$ 2.50
Expected volatility	50%
Expected life	5 years
Risk-free interest rate	2.03%
Expected forfeiture rate	12%

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

	Three months ended March 31, 2018	
	Number of options (thousands)	Weighted average exercise price
Balance – beginning of period	5,555	2.68
Granted	545	2.50
Forfeited	(85)	2.75
Balance – end of period	6,015	2.67

(Unaudited, expressed in thousands of Canadian dollars)

The following is a summary of the number of stock options outstanding and exercisable as at March 31, 2018:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	75	75	2.8 years
$1.00	25	25	2.8 years
$2.25	4,475	3,238	4.1 years
$2.50	545	136	6.0 years
$3.00	564	564	2.8 years
$8.11	120	120	0.5 years
$9.00	211	211	2.4 years
	6,015	4,369	4.0 years

(d) Performance warrants

At March 31, 2018 and December 31, 2017, 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.

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

During the three months ended March 31, 2018, the Company's Board of Directors approved the issuance of 627,700 RSUs and 1,080,200 PSUs to employees and directors of the Company. The RSUs and PSUs granted vest all at once on the third anniversary date. The number of PSUs that ultimately vest is subject to the Company satisfying certain performance criteria within a target range set by the Company's Board of Directors. A multiplier (ranging from 0.5 to 2.0) will be applied to any vested PSUs to the extent such performance criteria are satisfied. The performance factor for the PSUs granted in the period was assumed to be 1.0 on the grant date.

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.

During the three months ended March 31, 2018, 24,919 RSUs and 20,817 PSUs vested resulting in 14,058 shares being issued and $85 of liabilities settled in cash. The RSUs and PSUs were settled 50% in cash and 50% in shares with a weighted average PSU performance factor of 1.12.

A summary of the changes in RSUs and PSUs outstanding is as follows:

For the three months ended March 31, 2018

(thousands)	RSUs	PSUs
Balance – beginning of period	1,805	2,941
Granted	628	1,080
Forfeited	(37)	(22)
Vested and settled	(25)	(21)
Balance – end of period	2,371	3,978

(Unaudited, expressed in thousands of Canadian dollars)

As at March 31, 2018, 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 $2.50 per share unit (December 31, 2017 – $2.25) and performance factors for the PSUs ranging from 1.0 to 1.1 (2017 – 1.0).

As at March 31, 2018, $3,065 of the Company's share unit liabilities were classified as current (December 31, 2017 – $164), relating to those RSUs and PSUs scheduled to vest in the next twelve months, while $1,077 (December 31, 2017 – $3,306) were classified as non-current.

(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 statements of financial position):

	For the three months ended March 31, 2018
Balance – beginning of period	63,777
Share-based compensation	690
Share units settled	(135)
Balance – end of period	64,332

(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, 2018
Weighted average common shares outstanding	130,981
Effect of dilutive securities	2,328
Weighted average common shares outstanding, diluted	133,309

Basic net loss 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 loss 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 months ended March 31, 2018, the Company's net loss per share did not differ from diluted loss per share as a net loss cannot be diluted. For the three months ended March 31, 2017, the Company's net income per share did not differ from diluted earnings per share.

12. Revenue

The Company produces bitumen from its Orion facility near Cold Lake, AB. The bitumen is blended with purchased diluent and marketed as a heavy crude oil blend known as Cold Lake Blend. Other than the recognition of deferred consideration described in note 13, the sale of blended bitumen is the Company's only source of revenue from contracts with customers. The Company sells its blended bitumen pursuant to short-term, variable-price physical delivery contracts with several non-governmental commodity trading counterparties. Monthly per barrel transaction prices are based on commodity settlement prices, adjusted for quality, location and other factors or fees.

(Unaudited, expressed in thousands of Canadian dollars)

The Company considers the delivery of each barrel of blended bitumen to be a distinct performance obligation as each barrel has the same use and value to the counterparty and that value is not related to or dependent upon the other contracted barrels. The amount of revenue recognized is based on the agreed transaction price per barrel of blended bitumen and the volumes delivered. The Company has no long-term contracts with unfulfilled performance obligations.

Arrangements for the transportation of blended bitumen are made separately and are not performance obligations of contracts with customers. Transportation expenses are recorded within "Diluent and transportation" on the statements of net and comprehensive income (loss).

Separate from its blended bitumen sales contracts but often, though not exclusively, with the same counterparties, the Company also has contracts to purchase diluent for use in blending. Blended bitumen sales and diluent purchases with the same counterparty are settled monthly on a net basis, but are recorded on a gross basis on the statements of net and comprehensive income (loss). All blended bitumen revenue, net of any diluent purchases, is collected from each counterparty on the business day nearest the 25th day of the month following the month of delivery. Given the size and financial stability of the counterparties and their history of reliable and timely payment, no allowance for doubtful receivables is maintained.

Included in accounts receivable at March 31, 2018 was $15.6 million (December 31, 2017 – $22.7 million) of accrued blended bitumen sales related to deliveries for the month then ended. Each amount was collected in full in the subsequent month.

13. Deferred Consideration

As described in the Company's annual consolidated financial statements for the year ended December 31, 2017, on September 29, 2017 the Company sold a 4.0% GORR interest on its Orion property for cash proceeds of $92,500, before transaction costs.

Under the sale agreement, the proceeds are to be used for the development of the Orion property. On the transaction closing date, the Company recorded deferred consideration of $64,400, representing the portion of proceeds attributable to upfront payment received for costs expected to be incurred by the Company in relation to future production of the royalty owner's 4.0% share of 2P reserves. At December 31, 2017, the remaining total deferred consideration was $64,047, of which $1,336 was classified as current and $62,711 was classified as non-current.

A reconciliation of deferred consideration for the three months ended March 31, 2018 is shown below:

	Three months ended March 31, 2018
Balance – beginning of period	64,047
Implied interest benefit	1,517
Revenue – deferred consideration	(2,054)
Balance – end of period	63,510
Less: current portion of deferred consideration	(1,982)
Deferred consideration	61,528

(Unaudited, expressed in thousands of Canadian dollars)

The Company's deferred consideration is considered a contract liability that implicitly contains a financing component as the payment was received in advance of the Company's incurrence of any costs related to production of the royalty owner's share of 2P reserves. The imputed interest expense resulting from the financing component was recorded and the implied interest benefit was added to the deferred consideration. The imputed interest was calculated using 9.5%, which reflected the Company's estimated cost of borrowing at contract inception.

During the three months ended March 31, 2018, the Company recognized $2,054 of revenue related to the deferred consideration.

14. Net Finance Costs

For the three months ended March 31,	2018	2017
Interest expense – long-term debt	4,669	4,515
Amortization of deferred transaction costs (note 9)	470	446
Interest income	(983)	(373)
Interest expense – deferred consideration (note 13)	1,517	—
Realized foreign exchange loss	96	35
Net finance costs	5,769	4,623

15. 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, 2018.

	Total	2018	2019	2020	2021+
Contracts and purchase orders (1)	22,563	21,798	745	10	10
Transportation agreements (2)	35,483	5,723	7,468	7,468	14,824
Operating leases (3)	2,362	1,530	695	137	—
Outstanding share units (4)	6,688	3	1,528	2,226	2,931
Interest and fees on term loan (5)	40,060	13,037	17,117	9,906	—
Repayment of term loan (5)	261,378	2,031	2,709	256,638	—
Total	368,534	44,122	30,262	276,385	17,765

(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, 2018.

(Unaudited, expressed in thousands of Canadian dollars)

16. Supplemental Cash Flow Information

For the three months ended March 31,	2018	2017
Changes in non-cash operating working capital		
Accounts receivable	5,142	781
Prepaid expenses and other assets	(157)	6
Accounts payable and accrued liabilities	(5,360)	374
	(375)	1,161
Changes in non-cash investing working capital		
Accounts receivable	(81)	—
Accounts payable and accrued liabilities	10,297	4,077
	10,216	4,077

Supplemental cash flow information		
Cash interest earned	958	360

The following table provides a breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

For the three months ended March 31,	2018	2017
Balance – term loan – beginning of period	250,127	268,768
Cash changes:		
Principal repayments	(677)	(699)
Non-cash changes:		
Unrealized foreign exchange gain	6,603	(2,525)
Amortization of debt issue costs	470	446
Balance – term loan – end of period	256,523	265,990

Corporate Information

Directors

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Independent Businessman

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

Roy Ben-Dor
Principal, Warburg Pincus LLC

Vincent Chahley
Independent Businessman

George Crookshank
Independent Businessman

John Lee
Principal, 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
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Rick K. Walsh, P.Eng.
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