

Osum Oil Sands Corp.

Q2 2018 Interim Report to Shareholders

Dated August 2, 2018



Q2 2018 Interim Report

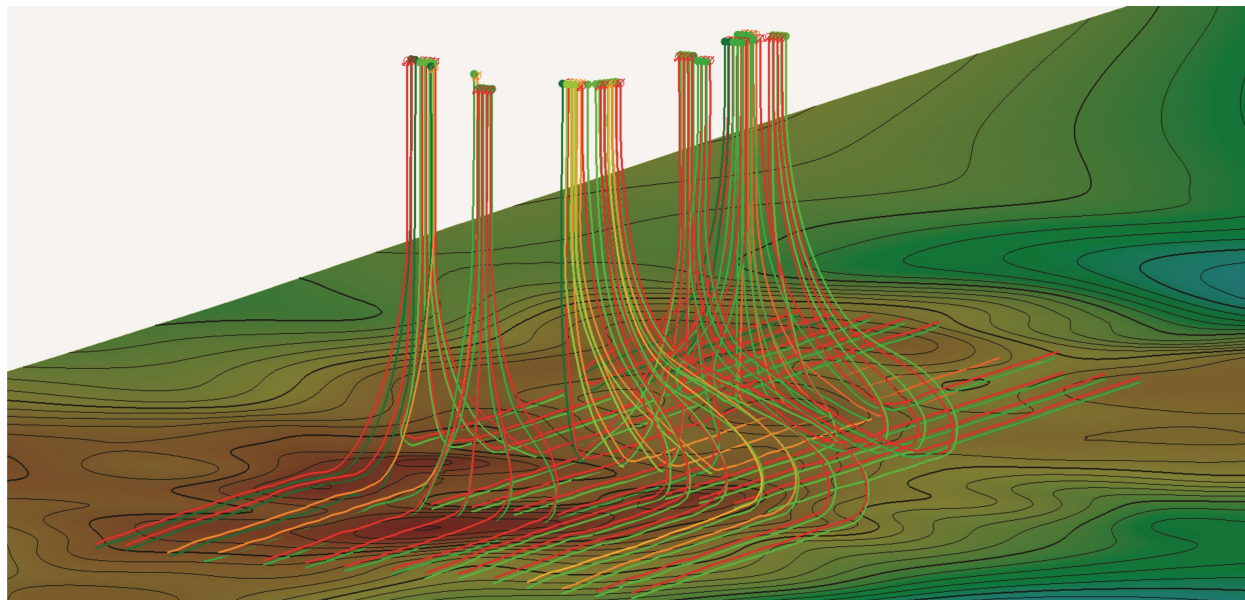
Page

Review and Outlook	3
Financial and Operational Summary	6
Interim Consolidated Financial Statements	8
Notes to the Interim Consolidated Financial Statements	12
Corporate Information	26

Review and Outlook

Q2 2018 Review

The Orion Phase 2BC project is nearing completion with production expected to begin ramping up in the coming months. The drilling of 18 new horizontal SAGD wells, as depicted in the perspective view below, was completed on schedule and under budget in early July with half of the new wells currently circulating steam and the other half scheduled to begin steam circulation in August and September. Supported by the installation of new facilities and infrastructure to increase water processing and steam generating capacity, the new well pairs are expected to bring production to 18,000 bbl/d by late 2019.



Financial results in the second quarter were stronger than the prior quarter, boosted by higher heavy oil prices and lower natural gas and blending costs. Despite capital spending of \$62.8 million focused mainly on the Phase 2BC project, Osum maintained a strong liquidity position with \$125.2 million of cash on hand and net working capital of \$91.3 million (excluding net unrealized hedging liabilities and deferred consideration) at June 30, 2018.

Production

Average production at Orion in the quarter of 8,549 bbl/d was 4% lower than the prior quarter's average of 8,880 bbl/d. The decrease was mainly due to the planned 4-day outage that occurred in April for facility tie-ins, as mentioned in the prior quarter's outlook. Apart from this scheduled downtime, average production was consistent with the prior quarter despite redirecting some steam from producing well pairs to several of the new Phase 2BC wells for initial circulation.

Operating netback

Osum generated an operating netback in the period of \$18.2 million or \$23.34/bbl, significantly higher than \$7.5 million or \$9.43/bbl in the prior quarter. Including realized net financial hedging losses, the netback in the second quarter was \$11.1 million or \$14.27/bbl, compared with \$9.6 million or \$11.96/bbl in the prior quarter. The following positive and negative factors contributed to the higher overall total and per unit netbacks:

- The average index price of US-dollar West Texas Intermediate ("WTI") oil increased by 8% from the prior quarter to US\$67.90/bbl. In addition, a narrowing of the light/heavy oil price differential led to the average index price of Cold Lake Blend in Canadian dollars being \$13.82/bbl or 29% higher than the prior quarter. Osum's realized bitumen price on a barrel of production basis was also enhanced by a lower seasonal blending ratio and a decline in blend inventories, partially offset by an increase in the cost of diluent and costs charged to the Company for repair and maintenance of its third party diluent pipeline. As a result, the average realized bitumen price in the quarter was \$43.91/bbl, up \$15.99/bbl or 57% from \$27.92/bbl the prior quarter.
- Average royalties of \$4.22/bbl or 9.6% of blended bitumen sales less diluent and transportation costs compared with \$2.17/bbl or 7.8% in the prior quarter. The higher unit cost and royalty rate were driven by higher bitumen pricing in the quarter and a higher crown royalty rate, which was determined using the average C\$ WTI price.
- Average total operating costs of \$16.35/bbl were consistent with \$16.32/bbl in the prior quarter, with higher non-fuel costs offsetting lower fuel costs.
 - Average non-fuel operating costs of \$14.23/bbl were \$1.60/bbl or 13% higher than \$12.63/bbl in the first quarter mainly due to higher surface and downhole repair and maintenance costs.
 - Average fuel costs of \$2.12/bbl were 43% or \$1.57/bbl lower than the prior quarter largely due to a decrease in the average AECO gas index price.
- Realized net losses on financial hedges totaled \$7.1 million or \$9.07/bbl, compared with net gains of \$2.0 million or \$2.53/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the quarter were \$62.8 million, of which \$59.2 million related to Orion expansion projects.
- Net general and administrative expenses were \$2.8 million, \$0.7 million lower than \$3.5 million in the prior quarter. The decrease in the second quarter resulted mainly from the absence of costs that were incurred in the prior quarter, including annual professional fees related to audit, tax, valuation, and reserve and resource evaluation, as well as one-time costs related to staff reductions.
- Net unrealized hedging liabilities totaled \$38.6 million at June 30, 2018, due mainly to the strengthening of WTI future oil prices since the time that the outstanding hedges were put in place.

Outlook

As expected, downtime for facility tie-ins led to lower average production than the prior quarter. However, overall well performance has exceeded expectations and reinforces a strong outlook for the second half of 2018. With the Phase 2BC wells expected to begin producing on or ahead of schedule, the Company is on track to meet or exceed its 2018 exit production target of over 11,000 bbl/d.

In addition to the ongoing steaming and subsequent start-up of the new wells, the Company's focus in the third quarter will be on the continued safe and successful execution of Phase 2BC facility and infrastructure projects, including the completion and start-up of the additional boiler, evaporators, and other central processing facility equipment.

As Phase 2BC approaches completion, the Company has begun scoping and planning activities for Phase 2D, the next step in the full build-out of Orion. This phase is expected to include an additional waste crystallizer along with facilities and equipment to provide sufficient water processing and steam generating capacity to support up to six additional wells pairs and three lower drainage wells, bringing total production at Orion up to the current regulatory limit of 20,000 bbl/d.

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.

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Business Environment ⁽¹⁾					
West Texas Intermediate (WTI) – US\$/bbl	67.90	62.89	48.29	65.41	50.07
Cold Lake Blend (CLB) – US\$/bbl	47.49	37.53	36.35	42.54	36.35
Differential – WTI less CLB – US\$/bbl	20.41	25.36	11.94	22.87	13.72
Differential – CLB % of WTI	30.1%	40.3%	24.7%	35.0%	27.4%
Foreign exchange rate – C\$/US\$	1.2911	1.2653	1.3449	1.2783	1.3342
CLB – \$/bbl	61.31	47.49	48.89	54.38	48.50
AECO – \$/mcf	1.18	2.07	2.65	1.62	2.67
Operational ^{(1) (2)}					
Bitumen production – bbl/d	8,549	8,880	7,478	8,714	7,565
Blended bitumen sales – bbl/d	12,045	12,509	10,201	12,276	10,381
Blended bitumen sales less diluent and transportation costs – \$/bbl	43.91	27.92	39.48	35.81	37.74
Royalties – \$/bbl	(4.22)	(2.17)	(0.98)	(3.18)	(1.02)
Non-fuel operating costs – \$/bbl	(14.23)	(12.63)	(15.74)	(13.42)	(14.70)
Fuel costs – \$/bbl	<u>(2.12)</u>	<u>(3.69)</u>	<u>(5.03)</u>	<u>(2.92)</u>	<u>(5.15)</u>
Netback ⁽³⁾ – \$/bbl	23.34	9.43	17.73	16.29	16.87
Realized gain (loss) on financial risk management contracts – \$/bbl	<u>(9.07)</u>	<u>2.53</u>	<u>(2.32)</u>	<u>(3.19)</u>	<u>(2.41)</u>
Adjusted netback ⁽³⁾ – \$/bbl	14.27	11.96	15.41	13.10	14.46
Financial					
Netback ⁽³⁾	18,158	7,538	12,061	25,696	23,097
Adjusted netback ⁽³⁾	11,104	9,557	10,481	20,661	19,799
Funds flow ⁽⁴⁾	3,198	962	3,135	4,161	3,882
Cash flows from operating activities	5,974	587	1,211	6,561	3,119
Net and comprehensive income (loss)	(22,148)	(20,897)	7,108	(43,045)	10,706
Net income (loss) per share (basic) – \$	(0.17)	(0.16)	0.05	(0.33)	0.08
Capital investment ⁽⁵⁾	62,760	58,760	18,439	121,520	34,333
General and administrative expenses (net) ⁽⁶⁾	2,834	3,457	2,931	6,291	6,822
Cash and cash equivalents ⁽⁷⁾	125,206	181,828	154,589	125,206	154,589
Adjusted working capital ⁽⁸⁾	91,297	151,699	144,698	91,297	144,698
Outstanding principal – long-term debt ⁽⁹⁾	262,773	258,669	262,075	262,773	262,075
Shareholders' equity	286,863	308,432	495,499	286,863	495,499
Weighted average common shares outstanding	130,994	130,981	130,915	130,988	129,278

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 and onerous lease payments.
- (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)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	112,383	217,007
Restricted cash	12,823	13,456
Accounts receivable	26,270	24,003
Financial risk management contracts (note 5)	19,343	9,015
Prepaid expenses and other assets	2,385	1,909
Total current assets	173,204	265,390
Non-current assets:		
Property, plant and equipment (note 6)	517,597	404,704
Exploration, evaluation and other intangible assets (note 7)	27,963	27,624
Deferred tax asset	52,687	34,454
Financial risk management contracts (note 5)	2,692	1,669
Abandonment deposits	357	336
Total assets	774,500	734,177
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provision (note 8)	56,384	40,410
Financial risk management contracts (note 5)	48,956	8,275
Current portion of long-term debt (note 9)	2,759	2,640
Current portion of deferred consideration (note 13)	1,641	1,336
Share unit liabilities (note 11)	3,421	164
Total current liabilities	113,161	52,825
Non-current liabilities:		
Long-term debt (note 9)	258,402	247,487
Deferred consideration (note 13)	61,350	62,711
Decommissioning liabilities (note 10)	41,517	36,176
Share unit liabilities (note 11)	1,515	3,306
Financial risk management contracts (note 5)	11,692	2,730
Provision (note 8)	—	303
Total non-current liabilities	374,476	352,713
Shareholders' equity		
Common shares (note 11)	1,032,483	1,032,277
Contributed surplus (note 11)	64,840	63,777
Cumulative deficit	(810,460)	(767,415)
Total shareholders' equity	286,863	328,639
Total liabilities and shareholders' equity	774,500	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 Income (loss)

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue:				
Blended bitumen sales (note 12)	67,069	45,433	119,044	90,771
Deferred consideration (note 13)	1,999	—	4,053	—
Royalties	(3,279)	(670)	(5,016)	(1,400)
Revenue net of royalties	65,789	44,763	118,081	89,371
Gain (loss) on financial risk management contracts (note 5)	(28,050)	6,486	(43,328)	15,318
Revenue net of gain or loss on financial risk management contracts	37,739	51,249	74,753	104,689
Expenses:				
Diluent and transportation	32,910	18,570	62,572	39,089
Operating expenses	12,722	14,132	25,760	27,185
Depletion and depreciation (notes 6, 7)	7,112	9,506	14,416	19,201
General and administrative expenses	2,834	2,931	6,291	6,822
Share-based compensation expense (note 11)	1,246	1,133	2,642	2,102
Total expenses	56,824	46,272	111,681	94,399
Other expenses (income):				
Net finance costs (note 14)	6,719	4,536	12,488	9,160
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	4,844	(7,228)	11,447	(9,753)
Accretion (notes 8, 10)	212	164	415	334
Total other expenses (income)	11,775	(2,528)	24,350	(259)
Net income (loss) before taxes	(30,860)	7,505	(61,278)	10,549
Deferred income tax expense (recovery)	(8,712)	397	(18,233)	(157)
Net and comprehensive income (loss)	(22,148)	7,108	(43,045)	10,706
Net income (loss) per share, basic and diluted (note 11)	(\$0.17)	\$0.05	(\$0.33)	\$0.08
Weighted average number of common shares outstanding (thousands):				
Basic	130,994	130,915	130,988	129,278
Diluted	133,463	132,550	133,251	130,622

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	—	—	—	(43,045)	(43,045)
Share-based compensation	—	—	1,269	—	1,269
Share issuance on settlement of share units	33	206	(206)	—	—
Balance – June 30, 2018	130,996	1,032,483	64,840	(810,460)	286,863
Balance – January 1, 2017	122,914	932,094	61,654	(610,398)	383,350
Net income for the period	—	—	—	10,706	10,706
Share-based compensation	—	—	1,443	—	1,443
Share issuance on exercise of callable warrants	8,000	100,000	—	—	100,000
Share issuance on settlement of share units	4	36	(36)	—	—
Balance – June 30, 2017	130,918	1,032,130	63,061	(599,692)	495,499

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)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash provided by (used in)				
Operating activities:				
Net income (loss) for the period	(22,148)	7,108	(43,045)	10,706
Items not involving cash:				
Depletion and depreciation (notes 6, 7)	7,112	9,506	14,416	19,201
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	4,844	(7,228)	11,447	(9,753)
Share-based compensation expense (note 11)	1,246	1,133	2,642	2,102
Amortization of deferred transaction costs (notes 9,14)	484	453	954	899
Accretion (notes 8,10)	212	164	415	334
Interest expense – deferred consideration (notes 13,14)	1,508	—	3,025	—
Change in fair value of financial risk management contracts (note 5)	20,996	(8,066)	38,293	(18,616)
Onerous contract recovery (note 8)	(2)	(7)	(3)	(8)
Deferred income tax recovery	(8,712)	397	(18,233)	(157)
Revenue – deferred consideration (note 13)	(1,999)	—	(4,053)	—
Settlements of onerous contract (note 8)	(309)	(313)	(601)	(537)
Settlements of share unit liabilities (note 11)	(47)	—	(209)	—
Settlements of decommissioning liabilities (note 10)	13	(12)	(887)	(289)
Funds flow from operating activities before changes in non-cash working capital	3,198	3,135	4,161	3,882
Change in non-cash operating working capital (note 16)	2,776	(1,924)	2,400	(763)
Total cash flows from operating activities	5,974	1,211	6,561	3,119
Investing activities:				
Property, plant and equipment expenditures (note 6)	(62,621)	(18,728)	(121,292)	(34,193)
Investment in exploration, evaluation and other intangible assets (note 7)	(139)	289	(228)	(140)
Transactions costs on disposition of property, plant and equipment	(28)	—	(28)	—
Change in abandonment deposits	(20)	(1)	(21)	(7)
Change in non-cash investing working capital (note 16)	902	(411)	11,118	3,665
Total cash used in investing activities	(61,906)	(18,851)	(110,451)	(30,675)
Financing activities:				
Proceeds from share issuance (net of costs) (note 11)	—	—	—	100,000
Principal repayments of long-term debt (note 9)	(690)	(681)	(1,367)	(1,380)
Total cash flows from (used in) financing activities	(690)	(681)	(1,367)	98,620
Increase (decrease) in cash in period	(56,622)	(18,321)	(105,257)	71,064
Cash and cash equivalents – beginning of period	167,892	161,722	217,007	72,333
Restricted cash – beginning of period	13,936	11,188	13,456	11,192
Cash and cash equivalents – end of period	112,383	143,369	112,383	143,369
Restricted cash – end of period	12,823	11,220	12,823	11,220

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 August 2, 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.

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

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 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.

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

(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.

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(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 ContractsFinancial risk management contracts

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Realized loss	(7,054)	(1,580)	(5,035)	(3,298)
Change in fair value	(20,996)	8,066	(38,293)	18,616
Net gain (loss) on financial risk management contracts	(28,050)	6,486	(43,328)	15,318

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

The following table summarizes the financial risk management contracts that were in place as at June 30, 2018. All were fixed price swaps. The related fair values were recorded on the consolidated statement of financial position:

	2018		2019				2020	Total
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
WTI								
bbl/d	5,343	6,973	7,860	8,537	6,730	4,700	2,380	
Average price (\$/bbl)	69.25	70.98	68.83	74.35	72.51	76.80	75.69	
Fair value	(12,566)	(12,825)	(13,828)	(9,284)	(7,392)	(2,623)	(1,213)	(59,731)
WTI-WCS differential								
bbl/d	7,214	9,411	10,621	11,521	9,050	6,340	3,220	
Average price (\$/bbl)	(20.76)	(25.62)	(25.70)	(26.97)	(26.95)	(27.14)	(27.10)	
Fair value	4,518	5,847	6,330	2,195	838	875	515	21,118
Total fair value	(8,048)	(6,978)	(7,498)	(7,089)	(6,554)	(1,748)	(698)	(38,613)

The fair 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 June 30, 2018:

Price or rate	Change	Impact on net loss before taxes
WTI	\$1.00/bbl	3,885
WTI/WCS differential	\$1.00/bbl	5,243

Subsequent to June 30, 2018, the Company entered into additional fixed price swap contracts. The table below summarizes the terms of these contracts:

	2019		2020
	Q3	Q4	Q1
WTI			
bbl/d	370	370	370
Average price (\$/bbl)	82.70	82.60	81.35
WTI-WCS differential			
bbl/d	500	500	500
Average price (\$/bbl)	(31.00)	(31.00)	(31.00)

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.

6. Property, Plant and Equipment

	Development and production assets	Corporate assets	Total
Cost			
Balance – December 31, 2017	674,541	5,372	679,913
Additions	119,687	112	119,799
Capitalized general and administrative expenses	1,493	—	1,493
Capitalized share-based compensation	298	—	298
Changes to decommissioning assets	5,709	—	5,709
Balance – June 30, 2018	801,728	5,484	807,212
Accumulated depletion, depreciation and impairment			
Balance – December 31, 2017	(270,097)	(5,112)	(275,209)
Depletion and depreciation	(14,363)	(43)	(14,406)
Balance – June 30, 2018	(284,460)	(5,155)	(289,615)
Carrying amounts			
Balance – December 31, 2017	404,444	260	404,704
Balance – June 30, 2018	517,268	329	517,597

During the six months ended June 30, 2018, the Company recorded \$14,134 (2017 – \$18,822) of depletion and \$229 (2017 – \$229) of depreciation related to its Orion oil sands project. The Company included \$993,407 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended June 30, 2018 (2017 – \$1,465,478).

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(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	199	—	199
Capitalized depreciation	721	—	721
Capitalized general and administrative expenses	29	—	29
Capitalized share-based compensation	4	—	4
Changes to decommissioning assets	117	—	117
Balance – June 30, 2018	482,527	416	482,943
Accumulated depreciation and impairment			
Balance – December 31, 2017	(453,977)	(272)	(454,249)
Depletion and depreciation	(721)	(10)	(731)
Balance – June 30, 2018	(454,698)	(282)	(454,980)
Carrying amounts			
Balance – December 31, 2017	27,480	144	27,624
Balance – June 30, 2018	27,829	134	27,963

8. ProvisionProvision for onerous contract

At June 30, 2018, the total provision for an onerous lease contract related to the Company's Calgary head office lease was \$920 (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.

	Six months ended June 30, 2018
Balance – beginning of period	1,511
Change in estimated future cash flows	(3)
Liabilities settled	(601)
Accretion	13
Balance – end of period	920

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 June 30, 2018, these cashflows were discounted using a risk-free discount rate of 1.9% (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.

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

9. Long-term Debt

	June 30, 2018	December 31, 2017
Senior secured term loan – US\$	202,125	203,175
Period end exchange rate – US\$1 = C\$	1.3137	1.2573
Senior secured term loan – C\$	265,532	255,452
Less: unamortized deferred debt issue costs	(4,371)	(5,325)
	261,161	250,127
Less: current portion of long-term debt	(2,759)	(2,640)
Long-term debt	258,402	247,487

During the six months ended June 30, 2018 and 2017, the Company made scheduled principal repayments totaling US\$1,050 (2018 – C\$1,367, 2017 – C\$1,380) on the term loan. During the six months ended June 30, 2018, \$954 (2017 – \$899) of deferred debt issue costs were amortized against the loan balance.

The fair market value of the Company's long-term debt as at June 30, 2018 was approximately \$242,601 (December 31, 2017 – \$227,068), compared with a carrying amount of \$265,532 (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 June 30, 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 June 30, 2018 and December 31, 2017.

10. Decommissioning Liabilities

	Six months ended June 30, 2018
Balance – beginning of period	36,176
Liabilities incurred	4,921
Liabilities settled	(887)
Changes to discount rates	461
Changes in estimates	444
Accretion	402
Balance – end of period	41,517

As at June 30, 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 June 30, 2018, the Company used discount rates ranging from 1.9% 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.

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 six months ended June 30, 2018, the Company issued 568,500 stock options to employees and directors. 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 weighted average 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 (weighted average)	2.03%
Expected forfeiture rate	12%

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

	Six months ended June 30, 2018	
	Number of options (thousands)	Weighted average exercise price
Balance – beginning of period	5,555	2.68
Granted	569	2.50
Forfeited or expired	(210)	5.92
Balance – end of period	5,914	2.55

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

The following is a summary of the number of stock options outstanding and exercisable as at June 30, 2018:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
\$0.15	75	75	2.5 years
\$1.00	25	25	2.5 years
\$2.25	4,471	3,233	3.8 years
\$2.50	568	142	5.7 years
\$3.00	564	564	2.5 years
\$8.11	25	25	2.5 years
\$9.00	186	186	1.5 years
	5,914	4,250	3.8 years

(d) Performance warrants

At June 30, 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 of which were exercised in July 2018.

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

During the six months ended June 30, 2018, the Company issued 661,200 RSUs and 1,101,000 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 six months ended June 30, 2018, 39,641 RSUs and 32,151 PSUs vested resulting in 33,231 shares being issued and \$209 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 six months ended June 30, 2018

(thousands)	RSUs	PSUs
Balance – beginning of period	1,805	2,941
Granted	661	1,101
Forfeited	(54)	(22)
Vested and settled	(40)	(32)
Balance – end of period	2,372	3,988

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

As at June 30, 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 – \$2.50) and performance factors for the PSUs ranging from 1.0 to 1.1 (December 31, 2017 – 0.9 to 1.1).

As at June 30, 2018, \$3,421 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 \$1,515 (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 six months ended June 30, 2018
Balance – beginning of period	63,777
Share-based compensation	1,269
Share units settled	(206)
Balance – end of period	64,840

(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 June 30, 2018	Six months ended June 30, 2018
Weighted average common shares outstanding	130,994	130,988
Effect of dilutive securities	2,469	2,263
Weighted average common shares outstanding, diluted	133,463	133,251

Basic net income (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 income (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 and six month periods ended June 30, 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 and six month periods ended June 30, 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

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(Unaudited, expressed in thousands of Canadian dollars)

commodity settlement prices, adjusted for quality, location and other factors or fees.

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 June 30, 2018 was \$23.6 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 six months ended June 30, 2018 is shown below:

	Six months ended June 30, 2018
Balance – beginning of period	64,047
Implied interest benefit	3,025
Revenue – deferred consideration	(4,053)
Transaction costs	(28)
Balance – end of period	62,991
Less: current portion of deferred consideration	(1,641)
Deferred consideration	61,350

Osum Oil Sands Corp.

Condensed Notes to the Interim Consolidated Financial Statements
(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 six months ended June 30, 2018, the Company recognized \$4,053 of revenue related to the deferred consideration.

14. Net Finance Costs

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest expense – long-term debt	5,328	4,587	9,997	9,102
Amortization of deferred transaction costs (note 9)	484	453	954	899
Interest income	(751)	(513)	(1,734)	(886)
Interest expense – deferred consideration (note 13)	1,508	—	3,025	—
Realized foreign exchange loss	150	9	246	45
Net finance costs	6,719	4,536	12,488	9,160

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 June 30, 2018.

	Total	2018	2019	2020	2021+
Contracts and purchase orders ⁽¹⁾	40,332	38,707	1,576	39	10
Transportation agreements ⁽²⁾	82,642	4,187	13,076	13,076	52,303
Operating leases ⁽³⁾	2,863	1,791	815	257	—
Outstanding share units ⁽⁴⁾	5,840	1	1,129	1,943	2,767
Interest and fees on term loan ⁽⁵⁾	36,446	8,873	17,465	10,108	—
Repayment of term loan ⁽⁵⁾	265,532	1,379	2,759	261,394	—
Total	433,655	54,938	36,820	286,817	55,080

(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 June 30, 2018.

16. Supplemental Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Changes in non-cash operating working capital				
Accounts receivable	(7,405)	1,696	(2,263)	2,477
Prepaid expenses and other assets	(318)	(1,491)	(476)	(1,485)
Accounts payable and accrued liabilities	10,499	(2,129)	5,139	(1,755)
	2,776	(1,924)	2,400	(763)
Changes in non-cash investing working capital				
Accounts receivable	77	(400)	(4)	(400)
Accounts payable and accrued liabilities	825	(11)	11,122	4,065
	902	(411)	11,118	3,665
Supplemental cash flow information				
Cash interest earned	724	501	1,682	861

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

For the six months ended June 30,	2018	2017
Balance – term loan – beginning of period	250,127	268,768
Cash changes:		
Principal repayments	(1,367)	(1,380)
Non-cash changes:		
Unrealized foreign exchange loss (gain)	11,447	(9,753)
Amortization of debt issue costs	954	899
Balance – term loan – end of period	261,161	258,534

Corporate Information

Directors

William A. Friley – Chairman

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

Advisor, 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

Vice President, Geoscience

Auditor

PricewaterhouseCoopers LLP

Calgary, Alberta

Independent Engineers

GLJ Petroleum Consultants Ltd.

Calgary, Alberta

Legal Counsel

McCarthy Tetrault LLP

Calgary, Alberta

Registrar and Transfer Agent

Alliance Trust Company

Calgary, Alberta

Financial Institution

ATB Financial

Calgary, Alberta

Q2 2018 Interim Report