Osum Oil Sands Corp.

Q3 2018 Interim Report to Shareholders

Dated November 8, 2018

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Review and Outlook

Q3 2018 Review

As announced on October 1, 2018, the Orion Phase 2BC project was completed in the third quarter on time and under budget. The expanded plant facility is fully operational with current performance in line with expectations. Record average quarterly production of 11,398 bbl/d reflected early production from six of 18 new Phase 2BC well pairs that had been converted to SAGD, along with lower than expected production declines from existing well pairs following the diversion of steam volumes to Phase 2 wells.

On the strength of the growth in production, financial results in the third quarter were substantially better than the prior quarter although negatively impacted, particularly in September, by the widening of the light/heavy oil price differential and by pipeline apportionment that led to even higher discounts for sales of blended bitumen into secondary markets.

With Phase 2BC spending complete and the ramp-up in production underway, Osum is well positioned with $89.3 million of cash on hand and net working capital of $70.3 million (excluding net unrealized hedging liabilities and deferred consideration) at September 30, 2018.

Production

Average production at Orion in the quarter of 11,398 bbl/d was 33% higher than the prior quarter's average of 8,549 bbl/d. As noted above, continued strength of existing Phase 1 wells, despite the diversion of steam volumes to new wells, coupled with early results from six of the Phase 2BC well pairs that had been converted to SAGD were responsible for the production increase. While the extent of the contribution from the Phase 1 wells was not expected, given the reduction in steam injection volumes, production from the wells will eventually decline but should be more than offset by increasing volumes from the Phase 2BC wells. The remaining Phase 2BC well pairs will be converted to SAGD over the next several months with the continued ramp-up expected to lead to 2018 exit production of over 14,000 bbl/d.

Operating netback

Osum generated an operating netback in the period of $29.9 million or $28.54/bbl, significantly higher than $18.2 million or $23.34/bbl in the prior quarter. Including realized net financial hedging losses, the netback in the third quarter was $24.2 million or $23.06/bbl, compared with $11.1 million or $14.27/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 2% from the prior quarter to US$69.50/bbl. However, a widening of the light/heavy oil price differential led to the average index price of Cold Lake Blend in Canadian dollars being $1.29/bbl or 2% lower than the prior quarter. After deducting the costs of diluent and transportation, the impact of the price decline on Osum's realized bitumen price on a barrel of production basis was mitigated by a lower seasonal blending ratio and a lower cost of diluent. Those factors, along with the absence of costs charged to the Company for repair and maintenance of its third party diluent pipeline in the prior quarter, resulted in the average realized bitumen price in the quarter being relatively unchanged at $44.15/bbl, compared with $43.91/bbl in the prior quarter.
- Average royalties of $3.99/bbl or 9.0% of blended bitumen sales after deducting diluent and transportation costs were consistent with $4.22/bbl or 9.6% in the prior quarter.
- Average total operating costs of $11.62/bbl were significantly lower than $16.35/bbl in the prior quarter, mainly due to higher average production.
    - Average non-fuel operating costs of $10.07/bbl were $4.16/bbl or 29% lower than $14.23/bbl in the second quarter largely due to the fixed portion of operating costs being spread over a larger number of barrels and to lower downhole repair and maintenance costs following an increase in those same costs in the prior period.
    - Average fuel costs of $1.55/bbl were 27% or $0.57/bbl lower than the second quarter mainly due to a lower steam-to-oil ratio as a result of the stronger than expected performance of Phase 1 wells and to a decrease in the average AECO gas index price.
- Realized net losses on financial hedges totaled $5.7 million or $5.48/bbl, compared with net losses of $7.1 million or $9.07/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the quarter were $37.4 million, of which $32.1 million related to Orion expansion projects with capital spending on Phase 2BC substantially complete.
- Net general and administrative expenses were $3.1 million, $0.3 million higher than $2.8 million in the prior quarter. The increase was mainly due to bank fees to initiate or renew letters of credit, along with the full quarter impact of two staff added partway through the second quarter.
- Net unrealized hedging liabilities totaled $23.8 million at September 30, 2018, reflecting the strengthening of WTI future oil prices, partially offset by the widening of the future light/heavy oil price differential, since the time that the outstanding hedges were put in place.

Outlook

With the Phase 2BC wells being converted to SAGD on or ahead of schedule, the Company increased its 2018 exit production target to 14,000 bbl/d from 11,000 bbl/d. As well, production is now anticipated to reach 18,000 bbl/d by the end of Q3 2019, three months earlier than previously forecast.

However, the positive momentum created by the successful execution of Phase 2BC is being overshadowed by a very weak industry backdrop. Historically wide light/heavy oil price differentials due to a lack of export capacity are challenging the Canadian oil sands industry. While not immune to the impacts, Osum is taking the appropriate steps to manage through the period and expects that the impact will be reduced as a result of its ongoing risk management program. In addition, where practical and depending on market conditions, some near-term production is being temporarily curtailed to reduce the impact of pipeline apportionment, limiting the number of barrels sold at a steep discount. The Company expects there to be early signs supporting the narrowing of the differential in the coming months as several U.S. Midwest refineries ramp up from recent maintenance outages and as additional crude-by-rail agreements are completed.

In anticipation of market conditions improving, the Company is in the midst of scoping and planning activities for Phase 2D, the next step in the full build-out of Orion. This phase is expected to include facilities and equipment to provide sufficient water processing and steam generating capacity to support up to six additional well pairs and three lower drainage wells (producer wells drilled between and below existing well pairs), bringing total production at Orion to over 20,000 bbl/d. However, the sanctioning of Phase 2D will be timed to allow for it to be funded with cash flow and cash on hand, and therefore is likely dependent upon the narrowing of light/heavy oil price differentials from their current levels.

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			Nine months ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Business Environment [1]					
West Texas Intermediate (WTI) – US$/bbl	69.50	67.90	48.19	66.79	49.44
Cold Lake Blend (CLB) – US$/bbl	45.92	47.49	37.36	43.68	36.69
Differential – WTI less CLB – US$/bbl	23.58	20.41	10.83	23.11	12.75
Differential – CLB % of WTI	33.9%	30.1%	22.5%	34.6%	25.8%
Foreign exchange rate – C$/US$	1.3071	1.2911	1.2527	1.2880	1.3067
CLB – $/bbl	60.02	61.31	46.80	56.26	47.94
AECO – $/mcf	1.12	1.18	1.37	1.45	2.23
Operational [1] [2]					
Bitumen production – bbl/d	11,398	8,549	7,946	9,618	7,694
Blended bitumen sales – bbl/d	15,479	12,045	10,402	13,355	10,389
Blended bitumen sales less diluent and transportation costs – $/bbl	44.15	43.91	38.64	39.14	38.05
Royalties – $/bbl	(3.99)	(4.22)	(0.61)	(3.50)	(0.88)
Non-fuel operating costs – $/bbl	(10.07)	(14.23)	(15.06)	(12.08)	(14.82)
Fuel costs – $/bbl	(1.55)	(2.12)	(2.87)	(2.38)	(4.36)
Netback [3] – $/bbl	28.54	23.34	20.10	21.18	17.99
Realized loss on financial risk management contracts – $/bbl	(5.48)	(9.07)	(1.86)	(4.11)	(2.22)
Adjusted netback [3] – $/bbl	23.06	14.27	18.24	17.07	15.77
Financial					
Netback [3]	29,922	18,158	14,695	55,618	37,792
Adjusted netback [3]	24,174	11,104	13,339	44,835	33,138
Funds flow [4]	16,057	3,198	5,961	20,218	9,843
Cash flows from operating activities	11,760	5,974	6,040	18,321	9,159
Net and comprehensive income (loss)	19,628	(22,148)	11,929	(23,417)	22,635
Net income (loss) per share (basic) – $	0.15	(0.17)	0.09	(0.18)	0.17
Capital investment [5]	37,397	62,760	8,265	158,917	42,598
General and administrative expenses (net) [6]	3,053	2,834	2,816	9,344	9,638
Cash and cash equivalents [7]	89,337	125,206	236,798	89,337	236,798
Adjusted working capital [8]	70,313	91,297	235,030	70,313	235,030
Outstanding principal – long-term debt [9]	257,575	262,773	251,415	257,575	251,415
Shareholders' equity	308,428	286,863	507,887	308,428	507,887
Weighted average common shares outstanding	131,020	130,994	130,927	131,000	129,834

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)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	74,514	217,007
Restricted cash	14,823	13,456
Accounts receivable	34,011	24,003
Financial risk management contracts (note 5)	39,852	9,015
Prepaid expenses and other assets	1,833	1,909
Total current assets	165,033	265,390
Non-current assets:		
Property, plant and equipment (note 6)	544,450	404,704
Exploration, evaluation and other intangible assets (note 7)	27,929	27,624
Deferred tax asset	47,982	34,454
Financial risk management contracts (note 5)	5,657	1,669
Abandonment deposits	359	336
Total assets	**791,410**	**734,177**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provision (note 8)	49,411	40,410
Financial risk management contracts (note 5)	59,372	8,275
Current portion of long-term debt (note 9)	2,711	2,640
Share unit liabilities (note 11)	2,746	164
Current portion of deferred consideration (note 13)	1,554	1,336
Total current liabilities	115,794	52,825
Non-current liabilities:		
Long-term debt (note 9)	253,700	247,487
Deferred consideration (note 13)	61,583	62,711
Decommissioning liabilities (note 10)	40,520	36,176
Financial risk management contracts (note 5)	9,943	2,730
Share unit liabilities (note 11)	1,442	3,306
Provision (note 8)	—	303
Total non-current liabilities	367,188	352,713
Shareholders' equity		
Common shares (note 11)	1,032,554	1,032,277
Contributed surplus (note 11)	66,706	63,777
Cumulative deficit	(790,832)	(767,415)
Total shareholders' equity	308,428	328,639
Total liabilities and shareholders' equity	**791,410**	**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 September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue:				
Blended bitumen sales (note 12)	80,268	44,626	199,312	135,397
Deferred consideration (note 13)	1,350	—	5,403	—
Royalties	(4,182)	(445)	(9,198)	(1,845)
Revenue net of royalties	77,436	44,181	195,517	133,552
Gain (loss) on financial risk management contracts (note 5)	9,059	(8,627)	(34,269)	6,691
Revenue net of gain or loss on financial risk management contracts	86,495	35,554	161,248	140,243
Expenses:				
Diluent and transportation	33,970	16,381	96,542	55,470
Operating expenses	12,194	13,105	37,954	40,290
Depletion and depreciation (notes 6, 7)	9,542	7,437	23,958	26,638
General and administrative expenses	3,053	2,816	9,344	9,638
Share-based compensation expense (note 11)	1,033	828	3,675	2,930
Total expenses	59,792	40,567	171,473	134,966
Other expenses (income):				
Net finance costs (note 14)	6,712	4,429	19,200	13,589
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	(4,569)	(10,109)	6,878	(19,862)
Gain on disposition of property, plant and equipment (note 6)	—	(14,922)	—	(14,922)
Accretion (notes 8, 10)	227	162	642	496
Total other expenses (income)	2,370	(20,440)	26,720	(20,699)
Net income (loss) before taxes	**24,333**	**15,427**	**(36,945)**	**26,115**
Deferred income tax expense (recovery)	4,705	3,498	(13,528)	3,341
Net and comprehensive income (loss)	**19,628**	**11,929**	**(23,417)**	**22,774**
Net income (loss) per share, basic and diluted (note 11)	$0.15	$0.09	($0.18)	$0.18
Weighted average number of common shares outstanding (thousands):				
Basic	131,020	130,927	131,000	129,834
Diluted	133,466	132,543	133,299	131,256

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	—	—	—	(23,417)	(23,417)
Share-based compensation	—	—	3,201	—	3,201
Reallocation on exercise of stock options and performance warrants	37	43	(38)	—	5
Share issuance on settlement of share units	36	234	(234)	—	—
Balance – September 30, 2018	**131,036**	**1,032,554**	**66,706**	**(790,832)**	**308,428**
Balance – January 1, 2017	122,914	932,094	61,654	(610,398)	383,350
Net income for the period	—	—	—	22,635	22,635
Share-based compensation	—	—	1,902	—	1,902
Share issuance on exercise of callable warrants	8,000	100,000	—	—	100,000
Share issuance on settlement of share units	20	94	(94)	—	—
Balance – September 30, 2017	**130,934**	**1,032,188**	**63,462**	**(587,763)**	**507,887**

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 September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Cash provided by (used in)				
Operating activities:				
Net income (loss) for the period	19,628	11,929	(23,417)	22,635
Items not involving cash:				
Depletion and depreciation (notes 6, 7)	9,542	7,437	23,958	26,638
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	(4,569)	(10,109)	6,878	(19,862)
Share-based compensation expense (note 11)	1,033	828	3,675	2,930
Amortization of deferred transaction costs (notes 9,14)	496	466	1,450	1,365
Accretion (notes 8,10)	227	162	642	496
Interest expense – deferred consideration (notes 13,14)	1,496	—	4,521	—
Change in fair value of financial risk management contracts (note 5)	(14,807)	7,271	23,486	(11,345)
Onerous contract recovery (note 8)	(1)	(148)	(4)	(156)
Gain on disposition of property, plant and equipment	—	(14,922)	—	(14,922)
Deferred income tax expense (recovery)	4,705	3,498	(13,528)	3,341
Revenue – deferred consideration (note 13)	(1,350)	—	(5,403)	—
Settlements of onerous contract (note 8)	(308)	(312)	(909)	(849)
Settlements of share unit liabilities (note 11)	(18)	(75)	(227)	(75)
Settlements of decommissioning liabilities (note 10)	(17)	(64)	(904)	(353)
Funds flow from operating activities before changes in non-cash working capital	16,057	5,961	20,218	9,843
Change in non-cash operating working capital (note 16)	(4,297)	79	(1,897)	(684)
Total cash flows from operating activities	**11,760**	**6,040**	**18,321**	**9,159**
Investing activities:				
Property, plant and equipment expenditures (note 6)	(37,238)	(8,511)	(158,530)	(42,704)
Investment in exploration, evaluation and other intangible assets (note 7)	(159)	246	(387)	106
Proceeds from disposition of property, plant and equipment (net)	—	90,993	(28)	90,993
Proceeds from disposition of exploration, evaluation and other intangible assets	—	2,114	—	2,114
Change in abandonment deposits	(2)	(6)	(23)	(13)
Change in non-cash investing working capital (note 16)	(9,558)	(8,012)	1,560	(4,347)
Total cash used in investing activities	**(46,957)**	**76,824**	**(157,408)**	**46,149**
Financing activities:				
Proceeds from share issuance (net of costs) (note 11)	6	—	6	100,000
Principal repayments of long-term debt (note 9)	(678)	(655)	(2,045)	(2,035)
Total cash flows from (used in) financing activities	**(672)**	**(655)**	**(2,039)**	**97,965**
Increase (decrease) in cash in period	(35,869)	82,209	(141,126)	153,273
Cash and cash equivalents – beginning of period	112,383	143,369	217,007	72,333
Restricted cash – beginning of period	12,823	11,220	13,456	11,192
Cash and cash equivalents – end of period	**74,514**	**225,593**	**74,514**	**225,593**
Restricted cash – end of period	**14,823**	**11,205**	**14,823**	**11,205**

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 November 8, 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 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 2 – Share-based Payment

The IASB issued amendments to IFRS 2 Share-based Payment, effective January 1, 2018 relating to classification and measurement of particular share-based payment transactions. The adoption of these amendments resulted in adjustments to share unit liabilities that were not material to the Company's consolidated financial statements.

(d) 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 Company's assessment of IFRS 16 is in progress and several lease arrangements will be included on the balance sheet upon adoption. However, the extent of the impacts has not yet been finalized. The Company intends to use the modified retrospective approach upon adoption.

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:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Realized loss	(5,748)	(1,356)	(10,783)	(4,654)
Change in fair value	14,807	(7,271)	(23,486)	11,345
Net gain (loss) on financial risk management contracts	9,059	(8,627)	(34,269)	6,691

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

	2018	2019				2020	
WTI	Q4	Q1	Q2	Q3	Q4	Q1	Total
bbl/d	6,973	7,860	8,537	8,960	6,180	3,860	
Average price ($/bbl)	70.98	68.83	74.35	75.56	78.22	77.89	
Fair value	(15,052)	(17,482)	(14,082)	(12,757)	(6,419)	(3,523)	(69,315)
WTI-WCS differential							
bbl/d	9,411	10,621	11,521	12,100	8,340	5,220	
Average price ($/bbl)	(25.62)	(25.70)	(26.97)	(28.13)	(27.95)	(28.41)	
Fair value	14,882	14,131	6,605	4,233	3,470	2,188	45,509
Total fair value	(170)	(3,351)	(7,477)	(8,524)	(2,949)	(1,335)	(23,806)

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 income (loss) before taxes related to changes in the fair value of financial risk management contracts in place as at September 30, 2018:

Price or rate	Change	Impact on net income (loss) before taxes
WTI	$1.00/bbl	3,870
WTI/WCS differential	$1.00/bbl	5,226

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	156,132	156	156,288
Capitalized general and administrative expenses	2,242	—	2,242
Capitalized share-based compensation	467	—	467
Changes to decommissioning assets	4,692	—	4,692
Balance – September 30, 2018	**838,074**	**5,528**	**843,602**
Accumulated depletion, depreciation and impairment			
Balance – December 31, 2017	(270,097)	(5,112)	(275,209)
Depletion and depreciation	(23,875)	(68)	(23,943)
Balance – September 30, 2018	**(293,972)**	**(5,180)**	**(299,152)**
Carrying amounts			
Balance – December 31, 2017	404,444	260	404,704
Balance – September 30, 2018	**544,102**	**348**	**544,450**

During the nine months ended September 30, 2018, the Company recorded $23,531 (2017 – $26,077) of depletion and $344 (2017 – $344) of depreciation related to its Orion oil sands project. The Company included $957,263 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended September 30, 2018 (2017 – $1,289,730).

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	357	—	357
Capitalized depreciation	1,097	—	1,097
Capitalized general and administrative expenses	30	—	30
Capitalized share-based compensation	4	—	4
Changes to decommissioning assets	(70)	—	(70)
Balance – September 30, 2018	**482,875**	**416**	**483,291**
Accumulated depreciation and impairment			
Balance – December 31, 2017	(453,977)	(272)	(454,249)
Depletion and depreciation	(1,097)	(16)	(1,113)
Balance – September 30, 2018	**(455,074)**	**(288)**	**(455,362)**
Carrying amounts			
Balance – December 31, 2017	27,480	144	27,624
Balance – September 30, 2018	**27,801**	**128**	**27,929**

8. Provision

Provision for onerous contract

At September 30, 2018, the total provision for an onerous lease contract related to the Company's Calgary head office lease was $614 (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.

	Nine months ended September 30, 2018
Balance – beginning of period	1,511
Change in estimated future cash flows	(4)
Liabilities settled	(909)
Accretion	16
Balance – end of period	614

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 September 30, 2018, these cashflows were discounted using a risk-free discount rate of 2.2% (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.

9. Long-term Debt

	September 30, 2018	December 31, 2017
Senior secured term loan – US$	201,600	203,175
Period end exchange rate – US$1 = C$	1.2911	1.2573
Senior secured term loan – C$	260,286	255,452
Less: unamortized deferred debt issue costs	(3,875)	(5,325)
	256,411	250,127
Less: current portion of long-term debt	(2,711)	(2,640)
Long-term debt	253,700	247,487

During the nine months ended September 30, 2018 and 2017, the Company made scheduled principal repayments totaling US$1,575 (2018 – C$2,045, 2017 – C$2,035) on the term loan. During the nine months ended September 30, 2018, $1,450 (2017 – $1,365) of deferred debt issue costs were amortized against the loan balance.

The fair market value of the Company's long-term debt as at September 30, 2018 was approximately $249,441 (December 31, 2017 – $227,068), compared with a carrying amount of $260,286 (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 September 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 September 30, 2018 and December 31, 2017.

10. Decommissioning Liabilities

	Nine months ended September 30, 2018
Balance – beginning of period	36,176
Liabilities incurred	5,731
Liabilities settled	(904)
Changes to discount rates	(1,664)
Changes in estimates	555
Accretion	626
Balance – end of period	40,520

As at September 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 September 30, 2018, the Company used discount rates ranging from 2.2% to 2.4% (December 31, 2017 – 1.7% to 2.3%) based on the Bank of Canada’s risk-free bond rates and an inflation rate of 1.8% (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 nine months ended September 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:

	Nine months ended September 30, 2018	
	Number of options (thousands)	Weighted average exercise price
Balance – beginning of period	5,555	2.68
Granted	569	2.50
Exercised	(25)	0.15
Forfeited or expired	(300)	6.84
Balance – end of period	5,799	3.60

During the three months ended September 30, 2018, 25,000 stock options were exercised at a price of $0.15 per stock option for proceeds of $5.

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

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	2.3 years
$1.00	25	25	2.3 years
$2.25	4,471	3,235	3.6 years
$2.50	568	142	5.5 years
$3.00	564	564	2.3 years
$8.11	25	25	2.3 years
$9.00	96	96	2.5 years
	5,799	4,137	3.6 years

(d) Performance warrants

During the three months ended September 30, 2018, the remaining 11,895 performance warrants were exercised at a price of $0.15 per performance warrant for proceeds of $2.

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

During the nine months ended September 30, 2018, the Company issued 663,400 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 nine months ended September 30, 2018, 47,341 RSUs and 34,651 PSUs vested resulting in 33,231 shares being issued and $227 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 nine months ended September 30, 2018

(thousands)	RSUs	PSUs
Balance – beginning of period	1,805	2,941
Granted	663	1,101
Forfeited	(54)	(22)
Vested and settled	(47)	(35)
Balance – end of period	2,367	3,985

As at September 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 September 30, 2018, $2,746 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 $1,442 (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 nine months ended September 30, 2018
Balance – beginning of period	63,777
Share-based compensation	3,201
Share units settled	(234)
Stock options and performance warrants exercised	(38)
Balance – end of period	66,706

(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 September 30, 2018	Nine months ended September 30, 2018
Weighted average common shares outstanding	131,020	131,000
Effect of dilutive securities	2,446	2,299
Weighted average common shares outstanding, diluted	133,466	133,299

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 nine month period ended September 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 nine month period ended September 30, 2017 and three month periods ended September 30, 2018 and 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.

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 September 30, 2018 was $28.6 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 which obligation has since been met. 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.

A reconciliation of deferred consideration for the nine months ended September 30, 2018 is shown below:

	Nine months ended September 30, 2018
Balance – beginning of period	64,047
Implied interest benefit	4,521
Revenue – deferred consideration	(5,403)
Transaction costs	(28)
Balance – end of period	63,137
Less: current portion of deferred consideration	(1,554)
Deferred consideration	61,583

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 and nine months ended September 30, 2018, the Company recognized $1,350 $5,403, respectively, of revenue related to the deferred consideration.

14. Net Finance Costs

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest expense – long-term debt	5,329	4,357	15,326	13,459
Amortization of deferred transaction costs (note 9)	496	466	1,450	1,365
Interest income	(556)	(580)	(2,290)	(1,466)
Interest expense – deferred consideration (note 13)	1,496	—	4,521	—
Realized foreign exchange loss (gain)	(53)	186	193	231
Net finance costs	6,712	4,429	19,200	13,589

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 September 30, 2018.

	Total	2018	2019	2020	2021+
Contracts and purchase orders (1)	4,858	3,002	1,836	10	10
Transportation agreements (2)	83,249	4,794	13,076	13,076	52,303
Operating leases (3)	3,161	1,935	830	342	54
Outstanding share units (4)	3,507	—	517	1,189	1,801
Interest and fees on term loan (5)	31,453	4,355	17,165	9,933	—
Repayment of term loan (5)	260,286	678	2,711	256,897	—
Total	386,514	14,764	36,135	281,447	54,168

(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 September 30, 2018.

16. Supplemental Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Changes in non-cash operating working capital				
Accounts receivable	(7,745)	(2,541)	(10,008)	(64)
Prepaid expenses and other assets	552	1,075	76	(410)
Accounts payable and accrued liabilities	2,896	1,545	8,035	(210)
	(4,297)	79	(1,897)	(684)
Changes in non-cash investing working capital				
Accounts receivable	4	(400)	—	(800)
Accounts payable and accrued liabilities	(9,562)	(7,612)	1,560	(3,547)
	(9,558)	(8,012)	1,560	(4,347)
Supplemental cash flow information				
Cash interest earned	514	562	2,196	1,423

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

For the nine months ended September 30,	2018
Balance – term loan – beginning of period	250,128
Cash changes:	
Principal repayments	(2,045)
Non-cash changes:	
Unrealized foreign exchange loss (gain)	6,878
Amortization of debt issue costs	1,450
Balance – term loan – end of period	256,411

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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
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George Crookshank
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Francesco Mele
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Brian Reinsborough
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Victor Roskey
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