Osum Oil Sands Corp.

Q1 2019 Interim Report to Shareholders

Dated May 7, 2019

Q1 2019 Interim Report | **Page**

Review and Outlook

Q1 2019 Review

Osum generated its highest ever field netback in the first quarter on the strength of record-high production and significantly improved Canadian oil pricing. The better pricing largely reflected measures taken by the Government of Alberta to address the historically wide Canadian oil price differentials experienced in late 2018. On December 2, 2018 and effective January 1, 2019, the Province announced a curtailment of oil production for up to 12 months. Osum is among the operators affected by the curtailment rules. While the positive impact on heavy oil pricing greatly exceeded the negative impact of lost production in the quarter, the net benefit was tempered by Osum's hedging program that had locked in wider differentials in anticipation of continued price weakness through the first half of the year.

The strength of the Company's financial results in the first quarter was underscored by its operating netback of $44.1 million which exceeded the Company's operating netback for all of 2018. At March 31, 2019, Osum had working capital of $70.7 million (excluding net unrealized hedging liabilities and deferred consideration), an increase of $14.7 million from December 31, 2018, and $68.8 million of cash on hand.

Production

Average quarterly production at Orion of 15,505 bbl/d in the first quarter was consistent with 15,424 bbl/d in the prior quarter, despite production in January of approximately 12,700 bbl/d based on the initial curtailment rules. The curtailment rules were subsequently modified to address unintended consequences including providing some flexibility for operators that were in the process of ramping up in situ thermal production. As a result of these modifications, the Company was able to increase production in February and March to an average of just under 17,000 bbl/d.

Operating netback

Osum generated an operating netback in the period of $44.1 million or $31.61/bbl, compared with a loss of $14.9 million or $10.52/bbl in the prior quarter. Including realized financial hedging gains and losses, the netback in the first quarter was $31.3 million or $22.45/bbl, compared with $3.8 million or $2.69/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 decreased by 7% from the prior quarter to US$54.90/bbl. However, a significant narrowing of the light/heavy oil price differential led to the average index price of Cold Lake Blend in Canadian dollars being $29.99/bbl or 117% higher than the prior quarter. The positive impact of the price increase on Osum's realized price per barrel of bitumen was boosted by a lower blending ratio, a lower cost of diluent and a lower level of discounted sales due to pipeline apportionment compared with the fourth quarter of 2018. The result was an average realized bitumen price in the quarter of $49.37/bbl, compared with $1.14/bbl in the prior quarter.
- Average royalties in the first quarter were $3.25/bbl or 6.6% of blended bitumen sales after deducting diluent and transportation costs, compared with $1.12/bbl or 97.8% of net sales in the prior quarter. The average unit and percentage royalties in the fourth quarter were distorted by the extreme price volatility during the period that resulted in no royalties being paid in November and December of 2018 as bitumen revenues were negative.

- Average total operating costs of $14.51/bbl were higher than $10.54/bbl in the prior quarter:
    - Average non-fuel operating costs of $10.67/bbl were $2.48/bbl or 30% higher than $8.19/bbl in the prior quarter. Approximately half of this increase reflected the recording of the cost during the period of the estimated carbon levy for the first quarter of 2019, compared with reversing the cost of the carbon levy recorded for the first three quarters of 2018 in the fourth quarter of 2018 as a result of the approval of the Company's application for relief of 2018 carbon levies. The remainder of the increase was largely due to a lower allocation of costs related to wells in steam circulation to capital in the first quarter as more Phase 2BC wells were converted to SAGD, and higher transportation and waste disposal charges stemming from production upsets caused by the new production.
    - Average fuel costs of $3.84/bbl were 63% or $1.49/bbl higher than the prior quarter mainly due a 68% increase in the average AECO index price, consistent with an increase in seasonal demand.
- Realized net losses on financial hedges totaled $12.8 million or $9.16/bbl, compared with net gains of $18.8 million or $13.21/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the quarter were $4.3 million, reflecting the low sustaining capital needs of the Orion facility following the completion of Phase 2BC. Included in capital expenditures were costs related to advance scoping and planning activities for Phase 2D.
- Net general and administrative expenses were $3.4 million, consistent with $3.5 million in the prior quarter.
- Net unrealized hedging liabilities totaled $43.3 million at March 31, 2019, reflecting the strengthening of WTI future oil prices and narrowing of the future light/heavy oil price differential since the time that the outstanding hedges were put in place.

Outlook

Production capability at Orion is in excess of the Company's limit under curtailment. As a result, Osum is actively pursuing opportunities to raise the limit by acquiring additional allocations in the secondary market.

With the improved market outlook, the Company has continued scoping and planning activities for further expansion of Orion. The scope includes the debottlenecking of the existing facility in order to maximize production from the current wells, and installation of facilities and equipment to provide sufficient water processing and steam generating capacity to support additional well pairs and lower drainage wells (producer wells drilled between and below existing well pairs). The execution of the individual components will be timed to allow for them to be funded from cash flow and cash on hand, with sanction subject to visibility to curtailment being sufficiently reduced or discontinued.

Finally, the Company is actively pursuing options to extend, replace or otherwise refinance its US$200.6 million term loan and undrawn US$15.0 million revolving credit facility, which are set to mature on July 31 and April 30, 2020, respectively.

Financial and Operational Summary

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, 2018.

For the three months ended	March 31, 2019	December 31, 2018	March 31, 2018
Business Environment [1]			
West Texas Intermediate (WTI) – US$/bbl	54.90	58.83	62.89
Cold Lake Blend (CLB) – US$/bbl	41.88	19.44	37.53
Differential – WTI less CLB – US$/bbl	13.02	39.39	25.36
Differential – CLB % of WTI	23.7%	67.0%	40.3%
Foreign exchange rate – C$/US$	1.3296	1.3215	1.2653
CLB – $/bbl	55.68	25.69	47.49
AECO – $/mcf	2.48	1.48	2.07
Operational [1] [2]			
Bitumen production – bbl/d	15,505	15,424	8,880
Blended bitumen sales – bbl/d	21,786	21,307	12,509
Blended bitumen sales less diluent and transportation costs – $/bbl	49.37	1.14	27.92
Royalties – $/bbl	(3.25)	(1.12)	(2.17)
Non-fuel operating costs – $/bbl	(10.67)	(8.19)	(12.63)
Fuel costs – $/bbl	(3.84)	(2.35)	(3.69)
Netback [3] – $/bbl	31.61	(10.52)	9.43
Realized gain (loss) on financial risk management contracts – $/bbl	(9.16)	13.21	2.53
Adjusted netback [3] – $/bbl	22.45	2.69	11.96
Financial			
Netback [3]	44,114	(14,922)	7,538
Realized gain (loss) on risk management contracts	(12,787)	18,752	2,019
Adjusted netback [3]	31,327	3,830	9,557
Funds flow [4]	22,593	(4,998)	962
Cash flows from operating activities	7,643	1,412	587
Net and comprehensive income (loss)	(40,663)	158,970	(20,897)
Net income (loss) per share (basic) – $	(0.31)	1.21	(0.16)
Capital investment [5]	4,254	6,839	58,760
General and administrative expenses (net) [6]	3,355	3,501	3,454
Cash and cash equivalents [7]	68,805	66,555	181,828
Adjusted working capital [8]	70,680	55,971	151,699
Outstanding principal – long-term debt [9]	264,930	271,421	258,669
Shareholders' equity	428,796	468,102	308,432
Weighted average common shares outstanding	131,036	131,036	130,981

See footnotes on the next page.

(1) Business environment and operational metrics are averages for the period.
(2) Dollar per barrel metrics are calculated based on bitumen production volumes. Quarter-over-quarter per barrel metrics may be affected by differences between the timing of bitumen production and blended bitumen sales.
(3) Netback is calculated by deducting the related diluent, transportation, royalties and field operating costs from blend sales revenue. Adjusted netback is calculated by adjusting the netback to include realized gains and losses on financial risk management contracts.
(4) Funds flow is calculated as cash flows from operating activities before changes in non-cash operating working capital, which is presented on the consolidated statement of cash flows.
(5) Capital investment includes capitalized general and administrative expenses but excludes capitalized stock-based compensation expense.
(6) General and administrative expenses (net) is calculated after reductions for capitalized salaries and benefits, onerous lease payments and exploration expenses.
(7) Cash and cash equivalents include restricted cash.
(8) Adjusted working capital is calculated as working capital adjusted to exclude the current portions of risk management contracts, which are fair value estimates of unrealized gains and losses and are subject to a high degree of volatility prior to ultimate settlement, and deferred consideration which is not cash-settled.
(9) Outstanding principal of long-term debt consists of the non-current portion of the outstanding principal balance of the US$210,000 term loan and any amounts outstanding under the US$15,000 revolving loan, translated to Canadian dollars at the period-end foreign exchange rate and presented before unamortized transaction costs.

Auditor Review

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

Osum Oil Sands Corp.

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

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	55,749	52,670
Restricted cash	13,056	13,885
Accounts receivable	33,479	12,836
Prepaid expenses and other assets	2,029	1,856
Financial risk management contracts (note 5)	1,197	31,657
Total current assets	105,510	112,904
Non-current assets:		
Property, plant and equipment (note 6)	676,200	679,972
Exploration, evaluation and other intangible assets (note 7)	27,799	27,077
Abandonment deposits	362	360
Deferred tax asset	73,415	56,906
Financial risk management contracts (note 5)	—	4,460
Total assets	**883,286**	**881,679**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provisions (note 9)	23,395	18,328
Share unit liabilities (note 10)	6,904	4,083
Current portion of long-term debt (note 8)	2,804	2,865
Current portion of lease liabilities (note 12)	530	—
Financial risk management contracts (note 5)	44,038	9,649
Current portion of deferred consideration (note 11)	1,528	1,156
Total current liabilities	79,199	36,081
Non-current liabilities:		
Long-term debt (note 8)	262,063	268,052
Decommissioning liabilities (note 9)	47,770	44,132
Share unit liabilities (note 10)	958	2,420
Lease liabilities (note 12)	671	—
Deferred consideration (note 11)	63,372	62,892
Financial risk management contracts (note 5)	457	—
Total non-current liabilities	375,291	377,496
Shareholders' equity		
Common shares (note 10)	1,032,554	1,032,554
Contributed surplus (note 10)	68,767	67,410
Cumulative deficit	(672,525)	(631,862)
Total shareholders' equity	428,796	468,102
Total liabilities and shareholders' equity	**883,286**	**881,679**

Contractual obligations and commitments (note 14)

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

Vincent Chahley
Director

George Crookshank
Director

Osum Oil Sands Corp.

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

For the three months ended March 31,	**2019**	**2018**
Revenue:		
Blended bitumen sales	110,219	51,975
Deferred consideration (note 11)	669	2,054
Royalties	(4,537)	(1,737)
Revenue net of royalties	106,351	52,292
Loss on financial risk management contracts (note 5)	(82,553)	(15,278)
Revenue net of loss on financial risk management contracts	23,798	37,014
Expenses:		
Diluent and transportation	41,327	29,662
Operating expenses	20,241	13,038
Depletion and depreciation (notes 6, 7)	12,081	7,304
General and administrative expenses	3,355	3,457
Share-based compensation expense (note 10)	2,464	1,396
Total expenses	79,468	54,857
Other expenses (income):		
Net finance costs (note 13)	7,109	5,769
Unrealized foreign exchange loss (gain) on long-term debt (note 8)	(5,851)	6,603
Accretion (note 9)	244	203
Total other expenses	1,502	12,575
Net loss before taxes	**(57,172)**	**(30,418)**
Deferred income tax recovery	(16,509)	(9,521)
Net and comprehensive loss	**(40,663)**	**(20,897)**
Net loss per share, basic and diluted (note 10)	($0.31)	($0.16)
Weighted average number of common shares outstanding (thousands):		
Basic	131,036	130,981
Diluted	134,493	133,309

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, 2019	131,036	1,032,554	67,410	(631,862)	468,102
Net loss for the period	—	—	—	(40,663)	(40,663)
Share-based compensation	—	—	1,357	—	1,357
Balance – March 31, 2019	**131,036**	**1,032,554**	**68,767**	**(672,525)**	**428,796**
Balance – January 1, 2018	130,963	1,032,277	63,777	(767,415)	328,639
Net loss for the period	—	—	—	(20,897)	(20,897)
Share-based compensation	—	—	690	—	690
Share issuance on settlement of share units (note 10)	25	135	(135)	—	—
Balance – March 31, 2018	**130,988**	**1,032,412**	**64,332**	**(788,312)**	**308,432**

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

Osum Oil Sands Corp.

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

For the three months ended March 31,	**2019**	**2018**
Cash provided by (used in)		
Operating activities:		
Net loss for the period	(40,663)	(20,897)
Items not involving cash:		
Depletion and depreciation (notes 6, 7)	12,081	7,304
Unrealized foreign exchange loss (gain) on long-term debt (note 9)	(5,851)	6,603
Share-based compensation expense (note 11)	2,464	1,396
Amortization of deferred transaction costs (notes 9, 14)	502	470
Accretion (note 10)	244	203
Interest expense – deferred consideration (notes 12)	1,521	1,517
Change in fair value of financial risk management contracts (note 5)	69,766	17,297
Deferred income tax recovery	(16,509)	(9,521)
Revenue – deferred consideration (note 12, 14)	(669)	(2,054)
Settlements of onerous contract (note 8)	(118)	(293)
Settlements of share unit liabilities (note 11)	—	(162)
Settlements of decommissioning liabilities (note 10)	(175)	(901)
Funds flow from operating activities before changes in non-cash working capital	22,593	962
Change in non-cash operating working capital (note 16)	(14,950)	(375)
Total cash flows from operating activities	**7,643**	**587**
Investing activities:		
Property, plant and equipment expenditures (note 6)	(3,679)	(58,671)
Investment in exploration, evaluation and other intangible assets (note 7)	(575)	(89)
Disposition of exploration, evaluation and other intangible assets (note 7)	57	—
Change in abandonment deposits	(1)	(1)
Change in non-cash investing working capital (note 16)	(390)	10,216
Total cash used in investing activities	**(4,588)**	**(48,545)**
Financing activities:		
Principal repayments of long-term debt (note 9)	(701)	(677)
Principal payments of lease liabilities (note 13)	(104)	—
Total cash flows used in financing activities	**(805)**	**(677)**
Increase (decrease) in cash in period	2,250	(48,635)
Cash and cash equivalents – beginning of period	52,670	217,007
Restricted cash – beginning of period	13,885	13,456
Cash and cash equivalents – end of period	**55,749**	**167,892**
Restricted cash – end of period	**13,056**	**13,936**

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, 2018.

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, 2018.

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 interim consolidated financial statements were authorized for issue by the Board of Directors on May 7, 2019.

3. New Accounting Standards

International Financial Reporting Standard ("IFRS") 16 – Leases

Effective January 1, 2019, the Company adopted IFRS 16, "Leases". The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to the opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's consolidated statements of financial position, net and comprehensive income (loss), shareholders' equity and cash flows have not been restated.

On adoption, the Company elected to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of a low dollar value (less than US$5 thousand) or has a remaining term of less than twelve months as at January 1, 2019;
- Utilize hindsight to determine the appropriate lease term where the contract contains terms to extend or terminate the lease.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had been previously classified as operating leases under the principles of IAS 17, "Leases". Under the principles of the new standard these leases were measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate at January 1, 2019. Leases with a remaining term of less than twelve months and low-value leases were excluded. As at January 1, 2019, the Company recognized total lease liabilities of $1,306, of which $518 were classified as current. The associated ROU assets were measured at the amount equal to the lease liabilities.

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, 2018 with the exception of the following:

Leases

The Company applied IFRS 16 using the modified retrospective approach; therefore, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy in its annual consolidated financial statements for the year ended December 31, 2018.

The following accounting policy is applicable beginning January 1, 2019:

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that have not been paid at that date. These payments are discounted using the Company’s estimated incremental borrowing rate when the rate implicit to the lease is not readily available. At the commencement date, a corresponding ROU asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the ROU asset over the shorter of the estimated useful life of the asset or the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liabilities.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of comprehensive income (loss) on a straight-line basis over the lease term.

(Unaudited, expressed in thousands of Canadian dollars)

5. Risk Management Contracts

Financial risk management contracts

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

For the three months ended March 31,	2019	2018
Realized gain (loss)	(12,787)	2,019
Change in fair value	(69,766)	(17,297)
Net loss on financial risk management contracts	(82,553)	(15,278)

The following table summarizes the financial risk management contracts that were in place as at March 31, 2019. All contracts were fixed price swaps in Canadian dollars. The related fair values were recorded on the consolidated statement of financial position:

	2019			2020				
WTI	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
bbl/d	10,334	8,860	8,880	4,560	700	—	—	
Avg. price ($/bbl)	73.76	75.05	76.52	77.36	74.42	—	—	
Fair value	(6,350)	(4,497)	(2,789)	(650)	(219)	—	—	(14,505)
WTI-WCS differential								
bbl/d	13,921	12,000	11,940	6,170	950	—	—	
Avg. price ($/bbl)	(27.07)	(29.30)	(28.50)	(28.36)	(28.08)	—	—	
Fair value	(17,441)	(10,322)	(1,083)	358	(62)	—	—	(28,550)
WTI-Condensate differential								
bbl/d	3,600	3,100	3,100	—	—	—	—	
Avg. price ($/bbl)	(7.23)	(7.84)	(7.84)	—	—	—	—	
Fair value	437	(137)	(113)	—	—	—	—	187
AECO gas								
GJ/d	10,000	10,000	10,000	2,000	2,000	2,000	2,000	
Avg. price ($/GJ)	1.42	1.42	1.42	1.64	1.64	1.64	1.64	
Fair value	(219)	(326)	223	68	(82)	(78)	(16)	(430)
Total fair value	(23,573)	(15,282)	(3,762)	(224)	(363)	(78)	(16)	(43,298)

At December 31, 2018, the Company had a net risk management asset of $26,468, comprised of an asset relating to WTI differential swaps of $33,900, a net liability relating to WTI-WCS differential swaps of $8,123, an asset relating to WTI-Condensate differential swaps of $1,364 and a liability relating to AECO gas swaps of $673.

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

(Unaudited, expressed in thousands of Canadian dollars)

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 and physical risk management contracts in place as at March 31, 2019:

Price or rate	Change	Impact on net income (loss) before taxes
WTI	$1.00/bbl	3,051
WTI/WCS differential	$1.00/bbl	4,117
WTI/Condensate differential	$1.00/bbl	898
AECO gas	$0.05/GJ	174

Subsequent to March 31, 2019, the Company entered into financial risk management contracts with the following terms:

	2019			2020			
WTI	May-Jun	Q3	Q4	Q1	Q2	Q3	Q4
bbl/d	—	—	—	1,850	1,850	1,850	1,850
Average price ($/bbl)	—	—	—	78.42	78.42	78.42	78.42
WTI-WCS differential							
bbl/d	—	—	—	2,500	2,500	2,500	2,500
Average price ($/bbl)	—	—	—	(28.99)	(28.99)	(28.99)	(28.99)
WTI-Condensate differential							
bbl/d	—	—	—	1,000	1,000	1,000	1,000
Average price ($/bbl)	—	—	—	(6.25)	(6.25)	(6.25)	(6.25)
AECO gas							
GJ/d	1,250	1,250	1,250	—	—	—	—
Average price ($/GJ)	1.32	1.32	1.32	—	—	—	—

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

(Unaudited, expressed in thousands of Canadian dollars)

6. Property, Plant and Equipment

	Development and production assets	Corporate assets	Total
Cost			
Balance – December 31, 2018	850,272	5,554	855,826
Additions	3,455	9	3,464
ROU assets recorded upon adoption of IFRS 16	626	680	1,306
Capitalized general and administrative expenses	215	—	215
Capitalized share-based compensation	252	—	252
Changes to decommissioning assets	3,067	—	3,067
Balance – March 31, 2019	**857,887**	**6,243**	**864,130**
Accumulated depletion and depreciation			
Balance – December 31, 2018	(170,646)	(5,208)	(175,854)
Depletion and depreciation	(12,021)	(55)	(12,076)
Balance – March 31, 2019	**(182,667)**	**(5,263)**	**(187,930)**
Carrying amounts			
Balance – December 31, 2018	679,626	346	679,972
Balance – March 31, 2019	**675,220**	**980**	**676,200**

During the three months ended March 31, 2019, the Company recorded $11,837 (2018 – $7,162) of depletion, $115 (2018 – $115) of depreciation related to its Orion oil sands project, $69 (2018 – $0) of depreciation related to right-of-use development and production assets and $55 (2018 – $22) related to corporate assets. The Company included $936,330 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended March 31, 2019 (2018 – $1,120,000).

(Unaudited, expressed in thousands of Canadian dollars)

7. Exploration, Evaluation and Other Intangible Assets

	Exploration and evaluation assets	Other Intangible assets	Total
Cost			
Balance – December 31, 2018	482,404	416	482,820
Additions	575	—	575
Capitalized depreciation	376	—	376
Changes to decommissioning assets	209	—	209
Disposition	(57)	—	(57)
Balance – March 31, 2019	**483,507**	**416**	**483,923**
Accumulated depreciation and impairment			
Balance – December 31, 2018	(455,450)	(293)	(455,743)
Depletion and depreciation	(376)	(5)	(381)
Balance – March 31, 2019	**(455,826)**	**(298)**	**(456,124)**
Carrying amounts			
Balance – December 31, 2018	26,954	123	27,077
Balance – March 31, 2019	**27,681**	**118**	**27,799**

During the three months ended March 31, 2019, the Company disposed of exploration, evaluation and other intangible assets for cash proceeds of $57.

8. Long-term Debt

	March 31, 2019	December 31, 2018
Senior secured term loan – US$	200,550	201,075
Period end exchange rate – US$1 = C$	1.3350	1.3641
Senior secured term loan – C$	267,734	274,286
Less: unamortized deferred debt issue costs	(2,867)	(3,369)
	264,867	270,917
Less: current portion of long-term debt	(2,804)	(2,865)
Long-term debt	262,063	268,052

During the three months ended March 31, 2019 and 2018, the Company made scheduled principal repayments totaling US$525 (2019 – C$701, 2018 – C$677) on the term loan. During the three months ended March 31, 2019, $502 (2018 – $470) of deferred debt issue costs were amortized against the loan balance.

The fair market value of the Company's long-term debt as at March 31, 2019 was approximately $249,512 (December 31, 2018 – $257,099), compared with a carrying amount of $267,734 (December 31, 2018 – $274,286). The fair market value measurement is categorized as level 2 as it is based on quoted prices in inactive markets.

(Unaudited, expressed in thousands of Canadian dollars)

As at March 31, 2019 and December 31, 2018, the revolving loan was undrawn. The senior secured credit facilities are subject to certain covenants by OPC, including maintaining minimum ratios of asset values to net senior secured debt. OPC was in compliance with all loan covenants as at March 31, 2019 and December 31, 2018.

9. Decommissioning Liabilities

	Three months ended March 31, 2019
Balance – beginning of period	44,925
Liabilities incurred	37
Liabilities settled	(175)
Changes to discount rates	3,105
Changes in estimates	134
Accretion	244
Balance – end of period	48,270

As at March 31, 2019, the Company estimated that the expenditures required to settle the decommissioning liabilities will be made over the next 36 years with the majority of payments being made around 2045. As at March 31, 2019, the Company used discount rates ranging from 1.6% to 1.9% (December 31, 2018 – 1.9% to 2.2%) based on the Bank of Canada's risk-free bond rates and an inflation rate of 1.4% (December 31, 2018 – 1.4%) to calculate the present value of the decommissioning liabilities.

At March 31, 2019, of the total decommissioning liability of $48,270 (December 31, 2018 – $44,925), $500 (December 31, 2018 – $793) was recorded as current within accounts payable, accrued liabilities and provisions and $47,770 (December 31, 2018 – $44,132) was recorded as non-current.

(Unaudited, expressed in thousands of Canadian dollars)

10. Share Capital

(a) Authorized

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

(b) Stock options

During the three months ended March 31, 2019, the Company's Board of Directors approved the issuance of 461,800 stock options to officers, directors and contractors with an effective grant date of March 11, 2019. The stock options expire six years from the grant date and vest in four equal tranches: 25% on the grant date and 25% on each of the three subsequent anniversary dates. A fair value of $1.39 per stock option was estimated on the grant date based on the following assumptions:

Assumption	
Share price on grant date	$3.10
Exercise price	$3.10
Expected volatility	50%
Expected life	5 years
Risk-free interest rate	1.64%
Expected forfeiture rate	12%

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

	Three months ended March 31, 2019	
	Number of options (thousands)	Weighted average exercise price
Balance – beginning of period	5,803	2.46
Granted	462	3.10
Forfeited or expired	(20)	9.00
Balance – end of period	6,245	2.49

The following is a summary of the number of stock options outstanding and exercisable as at March 31, 2019:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	1.8 years
$1.00	25	25	1.8 years
$2.25	4,470	4,329	3.1 years
$2.50	573	281	5.0 years
$3.00	564	564	1.8 years
$3.10	462	115	6.0 years
$8.11	25	25	1.8 years
$9.00	76	76	2.5 years
	6,245	5,465	3.3 years

(Unaudited, expressed in thousands of Canadian dollars)

(c) Restricted share units ("RSUs") and Performance share units ("PSUs")

During the three months ended March 31, 2019, the Company's Board of Directors approved the issuance of 554,800 RSUs and 892,900 PSUs to employees, directors and contractors 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.

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

For the three months ended March 31, 2019

(thousands)	RSUs	PSUs
Balance – beginning of period	2,371	3,990
Granted	555	893
Forfeited	(9)	—
Balance – end of period	2,917	4,883

As at March 31, 2019, 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 $3.10 per share unit (December 31, 2018 – $3.10) and performance factors for the PSUs ranging from 1.0 to 1.3 (December 31, 2018 – 1.0 to 1.3).

As at March 31, 2019, $6,904 of the Company's share unit liabilities were classified as current (December 31, 2018 – $4,083), relating to those RSUs and PSUs scheduled to vest and be settled in cash in the next twelve months, while $958 (December 31, 2018 – $2,420) were classified as non-current.

As at March 31, 2019 using the same assumptions for share units that vest and are equity-settled, the Company estimated that it would pay $5,226 in tax withholdings, of which $3,570 were expected to be incurred in the next 12 months. Such amounts are included in the Company's commitments in note 15.

Subsequent to March 31, 2019, 906,680 RSUs and 1,760,820 PSUs were settled which resulted in 871,256 shares being issued and $7,131 of cash payments, including payroll withholdings. The RSUs and PSUs were settled 50% in cash and 50% in shares with a PSU performance factor of 1.29.

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

(Unaudited, expressed in thousands of Canadian dollars)

(d) Contributed surplus

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

	For the three months ended March 31, 2019
Balance – beginning of period	67,410
Share-based compensation	1,357
Balance – end of period	68,767

(e) Per share amounts

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

(thousands)	Three months ended March 31, 2019
Weighted average common shares outstanding	131,036
Effect of dilutive securities	3,457
Weighted average common shares outstanding, diluted	134,493

Basic net loss per share was calculated using the weighted average number of shares outstanding for the period. The Company uses the treasury stock method to calculate net loss per share. The calculation of diluted weighted average common shares excludes shares related to stock options and warrants that are anti-dilutive. For the three months ended March 31, 2019, the Company's net loss per share did not differ from diluted loss per share as a net loss cannot be diluted.

11. Deferred Consideration

As described in the Company's annual consolidated financial statements for the year ended December 31, 2018, on September 29, 2017 the Company sold a 4.0% gross overriding royalty ("GORR") interest on its Orion property.

Deferred consideration represents the portion of proceeds attributable to the 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 and probable reserves.

A reconciliation of deferred consideration for the period is shown below:

	Three months ended March 31, 2019
Balance – beginning of period	64,048
Implied interest benefit	1,521
Revenue – deferred consideration	(669)
Balance – end of period	64,900
Less: current portion of deferred consideration	(1,528)
Deferred consideration	63,372

(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 proved and probable reserves. The imputed interest expense resulting from the financing component was recorded and the implied interest benefit was added to the deferred consideration. The imputed interest was calculated using 9.5%, which reflected the Company's estimated cost of borrowing at contract inception.

During the three months ended March 31, 2019, the Company recognized $669 (2018 – $2,054) of revenue related to the deferred consideration.

12. Lease Liabilities

	Three months ended March 31, 2019
Balance – beginning of period (recorded on adoption of IFRS 16)	1,306
Interest expense – lease liabilities (note 13)	20
Lease payments	(125)
Balance – end of period	1,201
Less: current portion of lease liabilities	(530)
Long term portion of lease liabilities	671

The Company has lease liabilities for contracts related to office space, equipment rentals, information technology and vehicle rentals. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. The discount rate used for the three months ended March 31, 2019 was 9.5%.

The Company has included extension options in the calculation of finance lease liabilities, where the Company has the right to extend a lease term at its discretion and is more than likely to exercise the extension option.

Undiscounted cash outflows relating to the lease liabilities, including principal and interest, are:

	As at March 31, 2019
Year 1	644
Year 2	411
Year 3	285
Total	1,340

(Unaudited, expressed in thousands of Canadian dollars)

13. Net Finance Costs

For the three months ended March 31,	2019	2018
Interest expense – long-term debt	5,458	4,669
Amortization of deferred transaction costs (note 9)	502	470
Interest income	(356)	(983)
Interest expense – deferred consideration (note 11)	1,521	1,517
Interest expense – lease liabilities (note 12)	20	—
Realized foreign exchange loss (gain)	(36)	96
Net finance costs	7,109	5,769

14. Contractual Obligations and Commitments

The information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations for its oil sands properties and its general corporate activities as at March 31, 2019.

	Total	2019	2020	2021	2022+
Contracts and purchase orders (1)	4,871	2,478	1,614	616	163
Transportation agreements (2)	76,617	9,807	13,076	13,076	40,658
Outstanding share units (3)	9,679	2,239	2,297	2,949	2,194
Interest and fees on term loan (4)	23,607	13,355	10,252	—	—
Repayment of term loan (4)	267,734	2,103	265,631	—	—
Total	382,508	29,982	292,870	16,641	43,015

(1) Contracts and purchase orders including commitments relating to the Orion expansion projects, costs for the storage of the evaporators procured for use at Taiga, future operating costs for the head office lease and information technology contracts.
(2) Firm service gas and bitumen blend transportation commitments.
(3) Cash taxes related to share units expected to be settled in shares and unaccrued fair value of outstanding share units expected to be settled in cash.
(4) Minimum obligations under the term loan using the foreign exchange and interest rates in effect as at March 31, 2019.

(Unaudited, expressed in thousands of Canadian dollars)

15. Supplemental Cash Flow Information

For the three months ended March 31,	2019	2018
Changes in non-cash operating working capital		
Accounts receivable	(21,189)	5,142
Prepaid expenses and other assets	(173)	(157)
Accounts payable and accrued liabilities	6,412	(5,360)
	(14,950)	(375)
Changes in non-cash investing working capital		
Accounts receivable	546	(81)
Accounts payable and accrued liabilities	(936)	10,297
	(390)	10,216

Supplemental cash flow information		
Cash interest earned	295	958
Cash interest paid	5,478	4,669

The following table presents the cash and non-cash changes in financing liabilities arising from financing activities:

	Term loan	Lease liabilities
Balance as at January 1, 2019	270,916	1,306
Cash changes:		
Principal repayments	(701)	(104)
Non-cash changes:		
Unrealized foreign exchange loss (gain)	(5,851)	—
Amortization of debt issue costs	502	—
Balance as at March 31, 2019	264,867	1,201

Corporate Information

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Independent Businessman

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

Roy Ben-Dor
Principal, Warburg Pincus LLC

Vincent Chahley
Independent Businessman

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Francesco Mele
Partner, Azimuth Capital Management

Brian Reinsborough
Founder and Chief Executive Officer, Novara Energy 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.
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