Osum Oil Sands Corp.

Q2 2019 Interim Report to Shareholders

Dated August 6, 2019

Q2 2019 Interim Report **Page**

Review and Outlook

Q2 2019 Review

Following the successful completion and full ramp-up of the Phase 2BC expansion at Orion, Osum achieved record-high average production in the second quarter of 19,587 bbl/d, which surpassed the facility's production target of 18,000 bbl/d and was reached well ahead of the previously stated timeline of September 2019.

Strong production and significantly improved Canadian oil pricing since the implementation of curtailment regulations in Alberta at the beginning of the year led to record-high cash flow in the quarter including an operating netback before hedging of $68.8 million. While results were tempered by Osum's hedging program that had locked in wider differentials before the curtailment rules were announced in anticipation of continued price weakness through the first half of 2019, the quarterly netback after hedging of $46.9 million was higher than the netback in any previous quarter, before or after hedging.

During the second the quarter, the Company prepaid US$10 million of its existing US$200 million senior secured first lien term loan and completed an amendment with lenders to extend the maturity date of 90.6% of the balance, or approximately US$172 million, by two years to July 31, 2022. The interest rate on the extended portion of the loan was increased and will vary between LIBOR plus 7.5% and 9.5% per annum depending on the Company's debt to cash flow ratio. The remaining 9.4% of the loan, or approximately US$18 million, will continue to bear interest at LIBOR plus 5.5% per annum and mature as scheduled on July 31, 2020. The extension provides Osum with the opportunity to refinance the debt in better market conditions.

Despite repaying $13.8 million of debt, Osum was able to build on its liquidity position during the quarter. At June 30, 2019, after all costs and fees related to extension of the term loan, Osum had $83.6 million of cash on hand and working capital of $82.6 million (including $13.1 million of restricted cash and excluding net unrealized hedging liabilities and deferred consideration), an increase of $11.9 million from March 31, 2019.

Production

Average production at Orion of 19,587 bbl/d in the second quarter was 26% higher than 15,505 bbl/d in the prior quarter and above the facility's production target of 18,000 bbl/d. Strong well performance and the purchase of additional production allocations in the secondary market allowed the Company to exceed its curtailment limit and test the operational constraints of the expanded facility.

Operating netback

Osum generated an operating netback in the period of $68.8 million or $38.58/bbl, compared with $44.1 million or $31.61/bbl in the prior quarter. Including realized financial hedging losses, the netback in the second quarter was $46.9 million or $26.28/bbl, compared with $31.3 million or $22.45/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 9% from the prior quarter to US$59.83/bbl and the light/heavy oil price differential narrowed, leading to the average index price of Cold Lake Blend in Canadian dollars being $10.08/bbl or 18% higher than the prior quarter. The result was an average realized bitumen price in the quarter of $54.34/bbl, compared with $49.37/bbl in the prior quarter, an increase of 10%.

- Average royalties in the first quarter were $4.58/bbl or 8.4% of the average realized bitumen price, compared with $3.25/bbl or 6.6% in the prior quarter. The higher unit cost and royalty rate were driven by higher bitumen pricing in the quarter and a higher crown royalty rate, which was determined using the average Canadian-dollar WTI price.
- Average total unit operating costs of $11.18/bbl were 23% lower than $14.51/bbl in the prior quarter:
  - Average non-fuel operating costs of $9.62/bbl were $1.05/bbl or 10% lower than $10.67/bbl in the prior quarter. The decrease was largely due to fixed costs being spread across higher production volumes and to lower transportation and waste disposal costs, partially offset by the cost to purchase additional production allocations in the secondary market.
  - Average fuel costs of $1.56/bbl were 59% or $2.28/bbl lower than the prior quarter mainly due a 61% decrease in the average AECO index price, consistent with a decrease in seasonal demand.
- Realized net losses on financial hedges totaled $21.9 million or $12.30/bbl, compared with $12.8 million or $9.16/bbl in the prior quarter. The losses were consistent with the improved bitumen pricing in the quarter.

Other noteworthy items

- Capital expenditures in the quarter were $5.9 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 scoping and planning activities for Phase 2D.
- Net general and administrative expenses were $2.6 million, compared with $3.4 million in the prior quarter. The decrease was mainly due to a higher allocation of personnel costs to capital projects, lower head office rent beginning on April 1, 2019, lower payroll taxes as many employees reached their annual maximum deduction limit, and the absence of professional fees that were incurred in the prior quarter related to audit, tax and reserve and resource evaluation.
- Net finance costs of $12.2 million were $5.1 million higher than $7.1 million in the prior quarter. The increase was mainly due to a consent fee of $2.3 million paid to lenders related to the debt extension, the non-cash derecognition of $2.1 million of previously deferred debt issue costs and higher realized foreign exchange losses.
- Net unrealized hedging liabilities totaled $11.6 million at June 30, 2019, mainly reflecting the narrowing of the future light/heavy oil price differential, partially offset by the weakening of WTI future oil prices, since the time that the outstanding hedges were put in place.

Outlook

Osum's strong operational and financial performance in the first half of 2019 were instrumental to extending the maturity of the term loan on reasonable terms in a challenging market and reflected a high degree of support from the Company's lenders. While the interest rate on the extended portion has increased, Osum's level of debt is manageable at current commodity prices.

Production capability at Orion continues to be in excess of the Company's limit under curtailment of slightly below 17,000 bbl/d. Osum has been successful to date in acquiring additional allocations in the secondary market at reasonable prices and will continue to actively pursue these opportunities. However, there is no assurance that it will be successful.

Looking forward, given the uncertainty around the level and duration of production curtailment and the lack of significant progress on resolving the current egress issues in Alberta, the Company has committed to devoting much of its cash flow in excess of maintenance and sustaining capital spending to reducing debt, with the goal of ensuring that it will have the financial capacity to invest in the business when conditions improve. The Company's ongoing scoping and planning activities for further expansion of Orion are being progressed to a state that protects the value of the work and which will enable a streamlined future restart. In the meantime, the Company will focus on running the Orion asset well and pursuing short-payout opportunities that reduce operating costs or improve efficiency.

Finally, during the second quarter Osum welcomed Jeffrey Kelly of Blackstone to its Board of Directors, replacing Angelo Acconcia. Osum thanks Mr. Acconcia for his significant contributions to the Board over the past seven years.

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.

	Three months ended			Six months ended	
For the three months ended	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Business Environment [1]					
West Texas Intermediate (WTI) – US$/bbl	59.83	54.90	67.90	57.38	65.41
Cold Lake Blend (CLB) – US$/bbl	49.17	41.88	47.49	45.55	42.54
Differential – WTI less CLB – US$/bbl	10.66	13.02	20.41	11.83	22.87
Differential – CLB % of WTI	17.8%	23.7%	30.1%	20.6%	35.0%
Foreign exchange rate – C$/US$	1.3375	1.3296	1.2911	1.3336	1.2783
CLB – $/bbl	65.76	55.68	61.31	60.75	54.38
AECO – $/mcf	0.96	2.48	1.18	1.72	1.62
Operational [1] [2]					
Bitumen production – bbl/d	19,587	15,505	8,549	17,558	8,714
Blended bitumen sales – bbl/d	26,330	21,786	12,045	24,071	12,276
Blended bitumen sales less diluent and transportation costs – $/bbl	54.34	49.37	43.91	52.16	35.81
Royalties – $/bbl	(4.58)	(3.25)	(4.22)	(3.99)	(3.18)
Non-fuel operating costs – $/bbl	(9.62)	(10.67)	(14.23)	(10.08)	(13.42)
Fuel costs – $/bbl	(1.56)	(3.84)	(2.12)	(2.56)	(2.92)
Netback [3] – $/bbl	38.58	31.61	23.34	35.53	16.29
Realized net loss on financial risk management contracts – $/bbl	(12.30)	(9.16)	(9.07)	(10.92)	(3.19)
Adjusted netback [3] – $/bbl	26.28	22.45	14.27	24.61	13.10
Financial					
Netback [3]	68,786	44,114	18,158	112,900	25,696
Realized net loss on risk management contracts	(21,929)	(12,787)	(7,054)	(34,716)	(5,035)
Adjusted netback [3]	46,857	31,327	11,104	78,184	20,661
Funds flow [4]	29,051	22,593	3,198	51,644	4,161
Cash flows from operating activities	35,824	7,643	5,974	43,467	6,561
Net and comprehensive income (loss)	31,386	(40,663)	(22,148)	(9,277)	(43,045)
Net income (loss) per share (basic) – $	0.24	(0.31)	(0.17)	(0.07)	(0.33)
Capital investment [5]	5,919	4,254	62,760	10,173	121,520
General and administrative expenses (net) [6]	2,643	3,355	2,846	5,998	6,291
Cash and cash equivalents [7]	83,587	68,805	125,206	83,587	125,206
Adjusted working capital [8]	82,585	70,680	91,297	82,585	91,297
Outstanding principal – long-term debt [9]	246,050	264,930	262,773	246,050	262,773
Shareholders' equity	460,777	428,796	286,863	460,777	286,863
Weighted average common shares outstanding	131,630	131,036	130,994	131,334	130,988

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 does not impact cash.
(9) Outstanding principal of long-term debt consists of the non-current portion of then outstanding principal balance of the term loan and any amounts outstanding under the revolving loan, translated to Canadian dollars at the period-end foreign exchange rate and presented before unamortized transaction costs.

Auditor Review

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

Osum Oil Sands Corp.

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	70,511	52,670
Restricted cash	13,076	13,885
Accounts receivable	27,930	12,836
Prepaid expenses and other assets	1,112	1,856
Financial risk management contracts (note 5)	5,262	31,657
Total current assets	117,891	112,904
Non-current assets:		
Property, plant and equipment (note 6)	667,815	679,972
Exploration, evaluation and other intangible assets (note 7)	28,051	27,077
Abandonment deposits	395	360
Deferred tax asset	54,189	56,906
Financial risk management contracts (note 5)	3,534	4,460
Total assets	**871,875**	**881,679**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provisions (note 9)	24,536	18,328
Share unit liabilities (note 10)	2,223	4,083
Current portion of long-term debt (note 8)	2,750	2,865
Current portion of lease liabilities (note 12)	535	—
Financial risk management contracts (note 5)	18,146	9,649
Current portion of deferred consideration (note 11)	1,885	1,156
Total current liabilities	50,075	36,081
Non-current liabilities:		
Long-term debt (note 8)	243,821	268,052
Decommissioning liabilities (note 9)	49,202	44,132
Share unit liabilities (note 10)	1,342	2,420
Lease liabilities (note 12)	530	—
Deferred consideration (note 11)	63,841	62,892
Financial risk management contracts (note 5)	2,287	—
Total non-current liabilities	361,023	377,496
Shareholders' equity		
Common shares (note 10)	1,035,555	1,032,554
Contributed surplus (note 10)	66,361	67,410
Cumulative deficit	(641,139)	(631,862)
Total shareholders' equity	460,777	468,102
Total liabilities and shareholders' equity	**871,875**	**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 Income (Loss)

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

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Blended bitumen sales	151,422	67,069	261,641	119,044
Deferred consideration (note 11)	715	1,999	1,384	4,053
Royalties	(8,158)	(3,279)	(12,695)	(5,016)
Revenue net of royalties	143,979	65,789	250,330	118,081
Gain (loss) on financial risk management contracts (note 5)	9,730	(28,050)	(72,823)	(43,328)
Revenue net of gain (loss) on financial risk management contracts	153,709	37,739	177,507	74,753
Expenses:				
Diluent and transportation	54,562	32,910	95,889	62,572
Operating expenses	19,916	12,722	40,157	25,760
Depletion and depreciation (notes 6, 7)	15,398	7,112	27,479	14,416
General and administrative expenses	2,643	2,834	5,998	6,291
Share-based compensation expense (note 10)	3,308	1,246	5,772	2,642
Total expenses	95,827	56,824	175,295	111,681
Other expenses (income):				
Net finance costs (note 13)	12,196	6,719	19,305	12,488
Unrealized foreign exchange loss (gain) on long-term debt (note 8)	(5,154)	4,844	(11,005)	11,447
Accretion (note 9)	229	212	473	415
Total other expenses	7,271	11,775	8,773	24,350
Net income (loss) before taxes	**50,611**	**(30,860)**	**(6,561)**	**(61,278)**
Deferred income tax expense (recovery)	19,225	(8,712)	2,716	(18,233)
Net and comprehensive income (loss)	**31,386**	**(22,148)**	**(9,277)**	**(43,045)**
Net income (loss) per share, basic and diluted (note 10)	$0.24	($0.17)	($0.07)	($0.33)
Weighted average number of common shares outstanding (thousands):				
Basic	131,630	130,994	131,334	130,988
Diluted	135,152	133,463	134,686	133,251

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	—	—	—	(9,277)	(9,277)
Share-based compensation	—	—	1,952	—	1,952
Share issuance on settlement of share units (note 10)	871	3,001	(3,001)	—	—
Balance – June 30, 2019	**131,907**	**1,035,555**	**66,361**	**(641,139)**	**460,777**
Balance – January 1, 2018	130,963	1,032,277	63,777	(767,415)	328,639
Net loss for the period	—	—	—	(43,045)	(43,045)
Share-based compensation	—	—	1,269	—	1,269
Share issuance on settlement of share units (note 10)	33	206	(206)	—	—
Balance – June 30, 2018	**130,996**	**1,032,483**	**64,840**	**(810,460)**	**286,863**

The accompanying condensed notes are an integral part of these interim consolidated financial statements. Refer to note 10 for further details on share capital.

Osum Oil Sands Corp.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Cash provided by (used in)				
Operating activities:				
Net income (loss) for the period	31,386	(22,148)	(9,277)	(43,045)
Items not involving cash:				
Depletion and depreciation (notes 6, 7)	15,398	7,112	27,479	14,416
Unrealized foreign exchange loss (gain) on long-term debt (note 8)	(5,154)	4,844	(11,005)	11,447
Share-based compensation expense (note 10)	3,308	1,246	5,772	2,642
Amortization and derecognition of deferred transaction costs (notes 8, 13)	2,646	484	3,148	954
Accretion (note 9)	229	212	473	415
Interest expense – deferred consideration (notes 11, 13)	1,541	1,508	3,062	3,025
Change in fair value of financial risk management contracts (note 5)	(31,659)	20,996	38,107	38,293
Onerous contract recovery	—	(2)	—	(3)
Deferred income tax expense (recovery)	19,225	(8,712)	2,716	(18,233)
Revenue – deferred consideration (note 11)	(715)	(1,999)	(1,384)	(4,053)
Settlements of onerous contract	—	(309)	(118)	(601)
Settlements of share unit liabilities (note 10)	(7,133)	(47)	(7,133)	(209)
Settlements of decommissioning liabilities (note 9)	(21)	13	(196)	(887)
Funds flow from operating activities before changes in non-cash working capital	29,051	3,198	51,644	4,161
Change in non-cash operating working capital (note 15)	6,773	2,776	(8,177)	2,400
Total cash flows from operating activities	**35,824**	**5,974**	**43,467**	**6,561**
Investing activities:				
Property, plant and equipment expenditures (note 6)	(5,744)	(62,621)	(9,423)	(121,292)
Investment in exploration, evaluation and other intangible assets (note 7)	(175)	(139)	(750)	(228)
Disposition of exploration, evaluation and other intangible assets (note 7)	—	—	57	—
Transaction costs on disposition of property, plant and equipment	—	(28)	—	(28)
Change in abandonment deposits	(34)	(20)	(35)	(21)
Change in non-cash investing working capital (note 15)	836	902	446	11,118
Total cash used in investing activities	**(5,117)**	**(61,906)**	**(9,705)**	**(110,451)**
Financing activities:				
Principal repayments of long-term debt (note 8)	(13,780)	(690)	(14,481)	(1,367)
Principal payments of lease liabilities (note 12)	(137)	—	(241)	—
Debt issue costs (note 8)	(2,008)	—	(2,008)	—
Total cash flows used in financing activities	**(15,925)**	**(690)**	**(16,730)**	**(1,367)**
Increase (decrease) in cash in period	14,782	(56,622)	17,032	(105,257)
Cash and cash equivalents – beginning of period	55,749	167,892	52,670	217,007
Restricted cash – beginning of period	13,056	13,936	13,885	13,456
Cash and cash equivalents – end of period	**70,511**	**112,383**	**70,511**	**112,383**
Restricted cash – end of period	**13,076**	**12,823**	**13,076**	**12,823**

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 August 6, 2019.

3. New Accounting Standards

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

Effective January 1, 2019, the Company adopted IFRS 16, "Leases". The Company 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 were not 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)

Financial instruments

Financial liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability and the recognition of a new financial liability. Where a modification is treated as an extinguishment, any unamortized deferred transaction costs associated with the extinguished financial liability, along with any premiums, discounts or financing costs incurred at the time of the modification, are recognized immediately in net income (loss). Transaction costs that are directly attributable to the new liability such as legal expenses and arrangement fees are deferred and amortized over the term of the new financial liability.

5. Risk Management Contracts

Financial risk management contracts

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Realized loss	(21,929)	(7,054)	(34,716)	(5,035)
Change in fair value	31,659	(20,996)	(38,107)	(38,293)
Net gain (loss) on financial risk management contracts	9,730	(28,050)	(72,823)	(43,328)

(Unaudited, expressed in thousands of Canadian dollars)

The following table summarizes the financial risk management contracts that were in place as at June 30, 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	Q3	Q4	Q1	Q2	Q3	Q4	Total
bbl/d	8,860	8,880	8,610	4,750	4,050	4,050	
Avg. price ($/bbl)	75.05	76.52	77.06	76.38	76.71	76.71	
Fair value	(1,120)	702	2,024	1,299	1,602	1,858	6,365
WTI-WCS differential							
bbl/d	12,000	11,940	11,670	6,450	5,500	5,500	
Avg. price ($/bbl)	(29.30)	(28.50)	(28.84)	(29.20)	(29.39)	(29.39)	
Fair value	(11,800)	(2,229)	(189)	(1,846)	(1,501)	(279)	(17,844)
WTI-Condensate differential							
bbl/d	3,100	3,100	2,000	2,000	2,000	2,000	
Avg. price ($/bbl)	(7.84)	(7.84)	(6.23)	(6.23)	(6.23)	(6.23)	
Fair value	282	373	50	(67)	(166)	(49)	423
AECO gas							
GJ/d	11,250	11,250	6,500	6,500	6,500	6,500	
Avg. price ($/GJ)	1.41	1.41	1.57	1.57	1.57	1.57	
Fair value	(567)	286	216	(297)	(292)	73	(581)
Total fair value	(13,205)	(868)	2,101	(911)	(357)	1,603	(11,637)

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.

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 June 30, 2019:

Price or rate	Change	Impact on net income (loss) before taxes
WTI	$1.00/bbl	3,593
WTI/WCS differential	$1.00/bbl	4,863
WTI/Condensate differential	$1.00/bbl	1,135
AECO gas	$0.05/GJ	222

(Unaudited, expressed in thousands of Canadian dollars)

Subsequent to June 30, 2019, the Company entered into financial risk management contracts with the following terms:

	2020			
WTI	Q1	Q2	Q3	Q4
bbl/d	—	1,500	1,500	1,500
Average price ($/bbl)	—	74.04	74.04	74.04
WTI-WCS differential				
bbl/d	—	2,000	2,000	2,000
Average price ($/bbl)	—	(27.58)	(27.58)	(27.58)
WTI-Condensate differential				
bbl/d	300	300	300	300
Average price ($/bbl)	(5.25)	(5.25)	(5.25)	(5.25)

The Company has established transactional and portfolio limits designed to minimize credit and counterparty concentration risks related to the financial risk management contracts.

6. Property, Plant and Equipment

	Development and production assets	Corporate assets	Total
Cost			
Balance – December 31, 2018	850,272	5,554	855,826
Additions	8,139	93	8,232
ROU assets recorded upon adoption of IFRS 16	626	680	1,306
Capitalized general and administrative expenses	1,191	—	1,191
Capitalized share-based compensation	373	—	373
Changes to decommissioning assets	4,210	—	4,210
Balance – June 30, 2019	**864,811**	**6,327**	**871,138**
Accumulated depletion and depreciation			
Balance – December 31, 2018	(170,646)	(5,208)	(175,854)
Depletion and depreciation	(27,323)	(146)	(27,469)
Balance – June 30, 2019	**(197,969)**	**(5,354)**	**(203,323)**
Carrying amounts			
Balance – December 31, 2018	679,626	346	679,972
Balance – June 30, 2019	**666,842**	**973**	**667,815**

During the six months ended June 30, 2019, the Company recorded $26,955 (2018 – $14,134) of depletion, $229 (2018 – $229) of depreciation related to its Orion oil sands project, $223 (2018 – $0) of depreciation related to right-of-use assets and $62 (2018 – $43) related to corporate assets. The

(Unaudited, expressed in thousands of Canadian dollars)

Company included $931,774 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended June 30, 2019 (2018 – $993,407).

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	750	—	750
Capitalized depreciation	752	—	752
Changes to decommissioning assets	291	—	291
Disposition	(57)	—	(57)
Balance – June 30, 2019	**484,140**	**416**	**484,556**
Accumulated depreciation and impairment			
Balance – December 31, 2018	(455,450)	(293)	(455,743)
Depletion and depreciation	(752)	(10)	(762)
Balance – June 30, 2019	**(456,202)**	**(303)**	**(456,505)**
Carrying amounts			
Balance – December 31, 2018	26,954	123	27,077
Balance – June 30, 2019	**27,938**	**113**	**28,051**

During the six months ended June 30, 2019, the Company disposed of exploration, evaluation and other intangible assets for cash proceeds of $57.

8. Long-term Debt

On June 28, 2019, the Company's wholly-owned subsidiary, OPC, completed an amendment of its senior secured first lien term loan. As a result of the amendment:

- the Company made principal and amortization payments totaling US$10,525 at closing;
- US$172,120 of the term loan was extended by two years to July 31, 2022 (the "2022 Loans"); and
- US$17,905 of the term loan will mature as scheduled on July 31, 2020 (the "2020 Loans").

The interest rate on the 2022 Loans was increased and will vary between LIBOR plus 7.5% and 9.5% per annum depending on OPC's ratio of debt to cash flow. The 2020 Loans will continue to bear interest at LIBOR plus 5.5% per annum.

Beginning in the third quarter of 2019 and depending on OPC's ratio of debt to EBITDA, 75% to 90% of OPC's cash flow in excess of maintenance and sustaining capital spending will be subject to a quarterly cash sweep that is to be applied against the principal balance of the loans.

Total required amortization of US$525 per quarter is unchanged. Principal repaid through amortization and the cash sweep will be applied pro rata to the 2020 and 2022 Loans outstanding.

(Unaudited, expressed in thousands of Canadian dollars)

As the terms and expected cash flows of the 2022 Loans have been substantially modified from those of the original term loan, the Company has accounted for the amendment of the 2022 Loans under IFRS 9 as an extinguishment of a financial liability and the establishment of a new financial liability. As such, US$172,120 of the term loan and the related pro rata portion of unamortized deferred debt issue costs of $2,130 were derecognized at the amendment date. A new financial liability of US$172,120 representing the 2022 Loans was recorded and the associated debt issue costs of $2,008 were deferred.

A summary of the term loan balances is shown below:

	June 30, 2019	December 31, 2018
Senior secured term loan – US$	190,025	201,075
Period end exchange rate – US$1 = C$	1.3093	1.3641
Senior secured term loan – C$	248,800	274,286
Less: unamortized deferred debt issue costs	(2,229)	(3,369)
	246,571	270,917
Less: current portion of long-term debt	(2,750)	(2,865)
Long-term debt	243,821	268,052

During the six months ended June 30, 2019, the Company made principal repayments totaling US $11,050 or C$14,481 (2018 – US$1,050 or C$1,367) on the term loans. During the six months ended June 30, 2019, $2,008 of debt issue costs were incurred, $2,130 of previously deferred debt issue costs related to the extinguished loans were derecognized and $1,018 (2018 – $954) of deferred debt issue costs were amortized against the loan balance.

The estimated fair market value of the 2020 Loans as at June 30, 2019 was $21,568, compared with a carrying amount of $23,443. The estimated fair market value of the 2022 Loans as at June 30, 2019 approximated their carrying amount of $225,357. The estimated fair market value of the term loan at December 31, 2018 was $257,099, compared with a carrying amount of $274,286. The fair market value measurements of the 2020 Loans at June 30, 2019 and the term loan at December 31, 2018 are categorized as level 2 as they are based on quoted prices in inactive markets. The fair market value measurement of the 2022 Loans at June 30, 2019 is categorized as level 3 as it is based on unobservable inputs.

As at June 30, 2019 and December 31, 2018, the revolving loan was undrawn. The senior secured credit facilities are subject to covenants by OPC, including maintaining minimum ratios of asset values to net senior secured debt. These covenants did not change with the amendment of the term loan. OPC was in compliance with all loan covenants as at June 30, 2019 and December 31, 2018.

(Unaudited, expressed in thousands of Canadian dollars)

9. Decommissioning Liabilities

	Six months ended June 30, 2019
Balance – beginning of period	44,925
Liabilities settled	(197)
Changes to discount rates	5,716
Changes in estimates	(1,215)
Accretion	473
Balance – end of period	49,702

As at June 30, 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 June 30, 2019, the Company used discount rates ranging from 1.4% to 1.7% (December 31, 2018 – 1.9% to 2.2%) based on the Bank of Canada's risk-free bond rates and an inflation rate of 1.3% (December 31, 2018 – 1.4%) to calculate the present value of the decommissioning liabilities.

At June 30, 2019, of the total decommissioning liability of $49,702 (December 31, 2018 – $44,925), $500 (December 31, 2018 – $793) was recorded as current within accounts payable, accrued liabilities and provisions and $49,202 (December 31, 2018 – $44,132) was recorded as non-current.

10. Share Capital

(a) Authorized

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

(b) Stock options

During the six months ended June 30, 2019, the Company's Board of Directors approved the issuance of 462,900 stock options to officers, directors, employees and contractors. 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 $1.39 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 (weighted average)	1.64%
Expected forfeiture rate	12%

(Unaudited, expressed in thousands of Canadian dollars)

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

	Six months ended June 30, 2019	
	Number of options (thousands)	Weighted average exercise price
Balance – beginning of period	5,803	2.46
Granted	463	3.10
Forfeited or expired	(20)	9.00
Balance – end of period	6,246	2.49

The following is a summary of the number of stock options outstanding and exercisable as at June 30, 2019:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	1.5 years
$1.00	25	25	1.5 years
$2.25	4,470	4,329	2.8 years
$2.50	573	285	4.7 years
$3.00	564	564	1.5 years
$3.10	463	115	5.7 years
$8.11	25	25	1.5 years
$9.00	76	76	2.3 years
	6,246	5,469	3.1 years

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

During the six months ended June 30, 2019, the Company's Board of Directors approved the issuance of 554,800 RSUs and 896,700 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.

(Unaudited, expressed in thousands of Canadian dollars)

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

For the six months ended June 30, 2019

(thousands)	RSUs	PSUs
Balance – beginning of period	2,371	3,990
Granted	555	897
Forfeited	(10)	—
Vested and settled	(907)	(1,761)
Balance – end of period	2,009	3,126

As at June 30, 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 June 30, 2019, $2,223 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 $1,342 (December 31, 2018 – $2,420) were classified as non-current.

As at June 30, 2019 using the same assumptions for share units that vest and are equity-settled, the Company estimated that it would pay $2,989 in tax withholdings, of which $1,309 were expected to be incurred in the next 12 months. Such amounts are included in the Company's commitments in note 14.

During the three and six months ended June 30, 2019, 906,680 RSUs and 1,760,820 PSUs were settled which resulted in the issuance of 871,256 shares and $7,133 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.

(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 six months ended June 30, 2019
Balance – beginning of period	67,410
Share-based compensation	1,952
Share units settled	(3,001)
Balance – end of period	66,361

(Unaudited, expressed in thousands of Canadian dollars)

(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 June 30, 2019	Six months ended June 30, 2019
Weighted average common shares outstanding	131,630	131,334
Effect of dilutive securities	3,522	3,352
Weighted average common shares outstanding, diluted	135,152	134,686

Basic net income (loss) per share was calculated using the weighted average number of shares outstanding for the period. The Company uses the treasury stock method to calculate net income (loss) per share. The calculation of diluted weighted average common shares excludes shares related to stock options and warrants that are anti-dilutive. For the three and six months ended June 30, 2019, the Company's net income (loss) per share was $0.24 and $(0.07), respectively, did not differ from diluted loss per share. For the three and six months ended June 30, 2018, the Company's net loss per share of $(0.33) and $(0.17), respectively, did not differ from diluted earnings per share.

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:

	Six months ended June 30, 2019
Balance – beginning of period	64,048
Implied interest benefit	3,062
Revenue – deferred consideration	(1,384)
Balance – end of period	65,726
Less: current portion of deferred consideration	(1,885)
Deferred consideration	63,841

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 six months ended June 30, 2019, the Company recognized $1,384 (2018 – $4,053) of revenue related to the deferred consideration.

(Unaudited, expressed in thousands of Canadian dollars)

12. Lease Liabilities

	Six months ended June 30, 2019
Balance – beginning of period (recorded on adoption of IFRS 16)	1,306
Interest expense – lease liabilities (note 13)	47
Lease payments	(288)
Balance – end of period	1,065
Less: current portion of lease liabilities	(535)
Long term portion of lease liabilities	530

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 six months ended June 30, 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 June 30, 2019
Year 1	609
Year 2	378
Year 3	192
Total	1,179

13. Net Finance Costs

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest expense and fees – long-term debt	7,869	5,328	13,327	9,997
Amortization and derecognition of deferred transaction costs (note 8)	2,646	484	3,148	954
Interest income	(314)	(751)	(670)	(1,734)
Interest expense – deferred consideration (note 11)	1,541	1,508	3,062	3,025
Interest expense – lease liabilities (note 12)	27	—	47	—
Realized foreign exchange loss	427	150	391	246
Net finance costs	12,196	6,719	19,305	12,488

(Unaudited, expressed in thousands of Canadian dollars)

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 June 30, 2019.

	Total	2019	2020	2021	2022+
Contracts and purchase orders (1)	3,394	1,429	1,742	171	52
Transportation agreements (2)	73,348	6,538	13,076	13,076	40,658
Outstanding share units (3)	7,325	20	2,030	2,740	2,535
Interest and fees on term loan (4)	72,687	14,606	23,437	21,996	12,648
Repayment of term loan (4)	248,800	1,375	25,934	2,750	218,741
Total	405,554	23,968	66,219	40,733	274,634

(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 June 30, 2019.

15. Supplemental Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Changes in non-cash operating working capital				
Accounts receivable	5,549	(7,405)	(15,640)	(2,263)
Prepaid expenses and other assets	917	(318)	744	(476)
Accounts payable and accrued liabilities	307	10,499	6,719	5,139
	6,773	2,776	(8,177)	2,400
Changes in non-cash investing working capital				
Accounts receivable	—	77	546	(4)
Accounts payable and accrued liabilities	836	825	(100)	11,122
	836	902	446	11,118
Supplemental cash flow information				
Cash interest earned	253	724	548	1,682
Cash interest paid	5,494	5,217	10,919	9,838

(Unaudited, expressed in thousands of Canadian dollars)

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	270,917	1,306
Cash changes:		
Principal repayments	(14,481)	(241)
Debt issue costs	(2,008)	—
Non-cash changes:		
Unrealized foreign exchange gain	(11,005)	—
Amortization and derecognition of debt issue costs	3,148	—
Balance as at June 30, 2019	246,571	1,065

Corporate Information

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Independent Businessman

Roy Ben-Dor
Principal, Warburg Pincus LLC

Vincent Chahley
Independent Businessman

George Crookshank
Independent Businessman

Jeffrey Kelly
Managing Director, Blackstone Capital Partners and Blackstone Energy Partners

John Lee
Principal, Blackstone Capital Partners and Blackstone Energy Partners

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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