Osum Oil Sands Corp.

Q3 2019 Interim Report to Shareholders

Dated November 12, 2019

Q3 2019 Interim Report	Page

Review and Outlook

Q3 2019 Review

With the successful ramp-up of Phase 2BC at Orion, the Company's production has settled into a range around 19,000 bbl/d. That generated a netback after the impacts of hedging of $50.1 million in the third quarter and led to a cash position including restricted cash at the end of the period of $114.8 million. As a result of the strong performance, during the fourth quarter the Company will prepay $23.3 million of its outstanding term loan.

Production

Average production at Orion of 19,306 bbl/d in the third quarter was in line with the prior quarter and above the Company's limit under Provincial curtailment of just under 17,000 bbl/d. The purchase of additional production allocations in the secondary market allowed the Company to exceed the cap.

Operating netback

Osum generated an operating netback in the period of $64.1 million or $36.06/bbl, slightly lower than $68.8 million or $38.58/bbl in the prior quarter. However, including realized financial hedging losses, the netback in the third quarter was $50.1 million or $28.21/bbl, 7% higher than $46.9 million or $26.28/bbl in the prior period. The following positive and negative factors contributed to the higher overall total and per unit adjusted netbacks:

- The combination of a decrease in the price of West Texas Intermediate ("WTI") oil, a wider light/heavy oil price differential and a stronger Canadian dollar led to the average index price of Cold Lake Blend in Canadian dollars being $6.69/bbl or 10% lower than the prior quarter. The result was an average realized bitumen price for the period of $51.10/bbl, compared with $54.34/bbl in the second quarter, a decrease of 6%.
- Average royalties in the third quarter were $3.69/bbl or 7.2% of the average realized bitumen price, compared with $4.58/bbl or 8.4% in the prior period. The lower unit cost and royalty rate were driven by lower bitumen pricing in the quarter and a lower crown royalty rate, which was determined using the average WTI price in Canadian dollars.
- Average total unit operating costs of $11.35/bbl were consistent with $11.18/bbl in the prior quarter:
    - Average non-fuel operating costs were $9.85/bbl compared with $9.62/bbl in the prior period.
    - Average fuel costs were $1.50/bbl compared with $1.56/bbl in the second quarter.
- Realized net losses on financial hedges totaled $13.9 million or $7.85/bbl, compared with $21.9 million or $12.30/bbl in the prior quarter. The smaller losses were consistent with the lower bitumen pricing in the quarter.

Other noteworthy items

- Capital expenditures in the quarter were $2.9 million, reflecting the relatively low level of capital investment required to sustain production at Orion. Included in that spending were costs related to scoping and planning activities for the next project phase.
- Net general and administrative expenses were $3.2 million, compared with $2.6 million in the prior quarter. The increase was mainly due to a lower allocation of personnel costs to capital projects compared with the prior period and to professional fees for credit rating reviews that were incurred in the third quarter following the extension of the Company's term loan.
- Net finance costs of $8.8 million were $3.4 million lower than $12.2 million in the prior quarter. The decrease was mainly due to the absence of one-time charges incurred in the prior period related to the debt extension, which included a consent fee of $2.3 million paid to lenders and the non-cash derecognition of $2.1 million of previously deferred debt issue costs.
- During the third quarter the Company extended the maturity date of its undrawn US$15 million revolving credit facility by two years to April 30, 2022, enhancing its already strong liquidity position.
- Net unrealized hedging liabilities totaled $14.0 million at September 30, 2019, mainly reflecting the narrowing of the future light/heavy oil price differential, partially offset by the weakening of future WTI oil prices, since the time the outstanding hedges were put in place.

Outlook

On August 20, 2019, the Province of Alberta announced that effective October 2019 it was increasing the amount of production exempt from curtailment from 10,000 to 20,000 bbl/d per producer and extending the program through December 2020. The higher limit allows Osum to operate at current levels without restriction and the cost of having to purchase third-party curtailment allotments. The extension of the program provides market stability until additional egress capacity is brought into service and in the interim reduces the risk that the price received for Cold Lake Blend will collapse to the point that it did at the end of 2018.

However, with average production near the curtailment limit, the Company's near-term growth potential is limited. As a result, much of the Company's cash flow in excess of maintenance and sustaining capital spending will be devoted to repaying debt and adding to liquidity, with the remainder invested in short-payout opportunities that reduce operating costs or improve efficiency. To this end, as highlighted above, the Company will prepay $23.3 million or approximately 9% of its outstanding term loan balance in the fourth quarter.

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			Nine months ended	
	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Business Environment [1]					
West Texas Intermediate (WTI) – US$/bbl	56.45	59.83	69.50	57.07	66.79
Cold Lake Blend (CLB) – US$/bbl	44.72	49.17	45.92	45.27	43.68
Differential – WTI less CLB – US$/bbl	11.73	10.66	23.58	11.80	23.11
Differential – CLB % of WTI	20.8%	17.8%	33.9%	20.7%	34.6%
Foreign exchange rate – C$/US$	1.3208	1.3375	1.3071	1.3293	1.2880
CLB – $/bbl	59.07	65.76	60.02	60.18	56.26
AECO – $/mcf	0.86	0.96	1.12	1.43	1.45
Operational [1] [2]					
Bitumen production – bbl/d	19,306	19,587	11,398	18,147	9,618
Blended bitumen sales – bbl/d	25,867	26,330	15,479	15,959	13,355
Petroleum sales less product purchases and diluent and transportation costs – $/bbl	51.10	54.34	44.15	51.78	39.14
Royalties – $/bbl	(3.69)	(4.58)	(3.99)	(3.88)	(3.50)
Non-fuel operating costs – $/bbl	(9.85)	(9.62)	(10.07)	(9.99)	(12.08)
Fuel costs – $/bbl	(1.50)	(1.56)	(1.55)	(2.18)	(2.38)
Netback [3] – $/bbl	36.06	38.58	28.54	35.73	21.18
Realized net loss on financial risk management contracts – $/bbl	(7.85)	(12.30)	(5.48)	(9.82)	(4.11)
Adjusted netback [3] – $/bbl	28.21	26.28	23.06	25.91	17.07
Financial					
Netback [3]	64,070	68,786	29,922	176,970	55,618
Realized net loss on risk management contracts	(13,941)	(21,929)	(5,748)	(48,657)	(10,783)
Adjusted netback [3]	50,129	46,857	24,174	128,313	44,835
Funds flow [4]	39,734	29,051	16,057	91,378	20,218
Cash flows from operating activities	35,622	35,824	11,760	79,089	18,321
Net and comprehensive income (loss)	14,398	31,386	19,628	5,121	(23,417)
Net income (loss) per share (basic) – $	0.11	0.24	0.15	0.04	(0.18)
Capital investment [5]	2,948	5,919	37,397	13,121	158,917
General and administrative expenses (net) [6]	3,205	2,643	3,053	9,203	9,344
Cash and cash equivalents [7]	114,803	83,587	89,337	114,803	89,337
Adjusted working capital [8]	77,481	82,585	70,313	77,481	70,313
Outstanding principal – long-term debt [9]	207,220	246,050	257,575	207,220	257,575
Shareholders' equity	475,763	460,777	308,428	475,763	308,428
Weighted average common shares outstanding	132,498	131,630	131,020	131,529	131,000

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, product purchase, royalty and field operating costs from petroleum sales. 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)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	103,657	52,670
Restricted cash	11,146	13,885
Accounts receivable	32,905	12,836
Prepaid expenses and other assets	1,851	1,856
Financial risk management contracts (note 5)	20,618	31,657
Total current assets	170,177	112,904
Non-current assets:		
Property, plant and equipment (note 6)	656,175	679,972
Exploration, evaluation and other intangible assets (note 7)	28,184	27,077
Abandonment deposits	397	360
Deferred tax asset	51,663	56,906
Financial risk management contracts (note 5)	5,605	4,460
Total assets	**912,201**	**881,679**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provisions (note 9)	25,408	18,328
Share unit liabilities (note 10)	2,421	4,083
Current portion of long-term debt (note 8)	43,716	2,865
Current portion of lease liabilities (note 12)	533	—
Financial risk management contracts (note 5)	35,661	9,649
Current portion of deferred consideration (note 11)	2,278	1,156
Total current liabilities	110,017	36,081
Non-current liabilities:		
Long-term debt (note 8)	205,243	268,052
Decommissioning liabilities (note 9)	49,935	44,132
Share unit liabilities (note 10)	1,698	2,420
Lease liabilities (note 12)	629	—
Deferred consideration (note 11)	64,349	62,892
Financial risk management contracts (note 5)	4,567	—
Total non-current liabilities	326,421	377,496
Shareholders' equity		
Common shares (note 10)	1,035,592	1,032,554
Contributed surplus (note 10)	66,912	67,410
Cumulative deficit	(626,741)	(631,862)
Total shareholders' equity	475,763	468,102
Total liabilities and shareholders' equity	**912,201**	**881,679**

Contractual obligations and commitments (note 15)

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

Vincent Chahley
Director

George Crookshank
Director

Osum Oil Sands Corp.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Petroleum sales (note 13)	159,170	81,031	426,537	201,589
Deferred consideration (note 11)	661	1,350	2,045	5,403
Royalties	(6,549)	(4,182)	(19,244)	(9,198)
Revenue net of royalties	153,282	78,199	409,338	197,794
Gain (loss) on financial risk management contracts (note 5)	(16,308)	9,059	(89,131)	(34,269)
Revenue net of gain (loss) on financial risk management contracts	136,974	87,258	320,207	163,525
Expenses:				
Diluent and transportation	45,231	33,970	141,120	96,542
Product purchases (note 13)	23,175	763	28,901	2,277
Operating expenses	20,145	12,194	60,302	37,954
Depletion and depreciation (notes 6, 7)	15,354	9,542	42,833	23,958
General and administrative expenses	3,205	3,053	9,203	9,344
Share-based compensation expense (note 10)	1,087	1,033	6,859	3,675
Total expenses	108,197	60,555	289,218	173,750
Other expenses (income):				
Net finance costs (note 14)	8,813	6,712	28,118	19,200
Unrealized foreign exchange loss (gain) on long-term debt (note 8)	2,831	(4,569)	(8,174)	6,878
Accretion (note 9)	208	227	681	642
Total other expenses	11,852	2,370	20,625	26,720
Net income (loss) before taxes	**16,925**	**24,333**	**10,364**	**(36,945)**
Deferred income tax expense (recovery)	2,527	4,705	5,243	(13,528)
Net and comprehensive income (loss)	**14,398**	**19,628**	**5,121**	**(23,417)**
Net income (loss) per share, basic and diluted (note 10)	$0.11	$0.15	$0.04	($0.18)
Weighted average number of common shares outstanding (thousands):				
Basic	132,498	131,020	131,529	131,000
Diluted	135,463	133,466	134,381	133,299

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 income for the period	—	—	—	5,121	5,121
Share-based compensation	—	—	2,540	—	2,540
Share issuance on settlement of share units (note 10)	881	3,038	(3,038)	—	—
Balance – September 30, 2019	**131,917**	**1,035,592**	**66,912**	**(626,741)**	**475,763**
Balance – January 1, 2018	130,963	1,032,277	63,777	(767,415)	328,639
Net loss for the period	—	—	—	(23,417)	(23,417)
Share-based compensation	—	—	3,201	—	3,201
Share issuance on settlement of share units (note 10)	36	234	(234)	—	—
Reallocation on exercise of stock options and performance warrants	37	43	(38)	—	5
Balance – September 30, 2018	**131,036**	**1,032,554**	**66,706**	**(790,832)**	**308,428**

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash provided by (used in)				
Operating activities:				
Net income (loss) for the period	14,398	19,628	5,121	(23,417)
Items not involving cash:				
Depletion and depreciation (notes 6, 7)	15,354	9,542	42,833	23,958
Unrealized foreign exchange loss (gain) on long-term debt (note 8)	2,831	(4,569)	(8,174)	6,878
Share-based compensation expense (note 10)	1,087	1,033	6,859	3,675
Amortization and derecognition of deferred transaction costs (notes 8, 14)	185	496	3,333	1,450
Accretion (note 9)	208	227	681	642
Interest expense – deferred consideration (notes 11, 14)	1,562	1,496	4,624	4,521
Change in fair value of financial risk management contracts (note 5)	2,367	(14,807)	40,474	23,486
Onerous contract recovery	—	(1)	—	(4)
Deferred income tax expense (recovery)	2,527	4,705	5,243	(13,528)
Revenue – deferred consideration (note 11)	(661)	(1,350)	(2,045)	(5,403)
Settlements of onerous contract	—	(308)	(118)	(909)
Settlements of share unit liabilities (note 10)	(72)	(18)	(7,205)	(227)
Settlements of decommissioning liabilities (note 9)	(52)	(17)	(248)	(904)
Funds flow from operating activities before changes in non-cash working capital	39,734	16,057	91,378	20,218
Change in non-cash operating working capital (note 16)	(4,112)	(4,297)	(12,289)	(1,897)
Total cash flows from operating activities	**35,622**	**11,760**	**79,089**	**18,321**
Investing activities:				
Property, plant and equipment expenditures (note 6)	(2,841)	(37,238)	(12,264)	(158,530)
Investment in exploration, evaluation and other intangible assets (note 7)	(107)	(159)	(857)	(387)
Disposition of exploration, evaluation and other intangible assets (note 7)	—	—	57	—
Transaction costs on disposition of property, plant and equipment	—	—	—	(28)
Change in abandonment deposits	(2)	(2)	(37)	(23)
Change in non-cash investing working capital (note 16)	(690)	(9,558)	(244)	1,560
Total cash used in investing activities	**(3,640)**	**(46,957)**	**(13,345)**	**(157,408)**
Financing activities:				
Proceeds from share issuance (net of costs)	—	6	—	6
Principal repayments of long-term debt (note 8)	(738)	(678)	(15,219)	(2,045)
Principal payments of lease liabilities (note 12)	(138)	—	(379)	—
Debt issue costs (note 8)	110	—	(1,898)	—
Total cash flows used in financing activities	**(766)**	**(672)**	**(17,496)**	**(2,039)**
Increase (decrease) in cash in period	31,216	(35,869)	48,248	(141,126)
Cash and cash equivalents – beginning of period	70,511	112,383	52,670	217,007
Restricted cash – beginning of period	13,076	12,823	13,885	13,456
Cash and cash equivalents – end of period	**103,657**	**74,514**	**103,657**	**74,514**
Restricted cash – end of period	**11,146**	**14,823**	**11,146**	**14,823**

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 November 12, 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 net gains (losses) related to its financial risk management contracts:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Realized net loss	(13,941)	(5,748)	(48,657)	(10,783)
Change in fair value	(2,367)	14,807	(40,474)	(23,486)
Net gain (loss) on financial risk management contracts	(16,308)	9,059	(89,131)	(34,269)

(Unaudited, expressed in thousands of Canadian dollars)

The following table summarizes the financial risk management contracts that were in place as at September 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	Q4	Q1	Q2	Q3	Q4	Total
bbl/d	8,880	8,840	7,750	8,850	8,850	
Avg. price ($/bbl)	76.52	76.96	74.32	73.62	73.47	
Fair value	4,279	5,794	4,195	5,117	5,442	24,827
WTI-WCS differential						
bbl/d	11,940	11,920	10,450	12,000	12,000	
Avg. price ($/bbl)	(28.50)	(28.72)	(28.08)	(26.97)	(27.23)	
Fair value	(12,508)	(8,564)	(7,394)	(5,901)	(4,212)	(38,579)
WTI-Condensate differential						
bbl/d	3,100	3,100	2,700	3,100	3,100	
Avg. price ($/bbl)	(7.84)	(5.90)	(5.97)	(5.93)	(5.94)	
Fair value	139	(106)	(348)	(655)	(355)	(1,325)
AECO gas						
GJ/d	11,250	11,150	9,500	11,150	11,150	
Avg. price ($/GJ)	1.41	1.67	1.58	1.57	1.62	
Fair value	526	414	(19)	(12)	163	1,072
Total fair value	(7,564)	(2,462)	(3,566)	(1,451)	1,038	(14,005)

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 September 30, 2019:

Price or rate	Change	Impact on net income (loss) before taxes
WTI	$1.00/bbl	3,955
WTI/WCS differential	$1.00/bbl	5,342
WTI/Condensate differential	$1.00/bbl	1,383
AECO gas	$0.05/GJ	248

Credit and counterparty concentration risks related to the financial risk management contracts are considered acceptable due to the size and 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	10,306	171	10,477
ROU assets recorded upon adoption of IFRS 16	626	680	1,306
ROU asset additions	235	—	235
Capitalized general and administrative expenses	1,787	—	1,787
Capitalized share-based compensation	501	—	501
Changes to decommissioning assets	4,715	—	4,715
Balance – September 30, 2019	**868,442**	**6,405**	**874,847**
Accumulated depletion and depreciation			
Balance – December 31, 2018	(170,646)	(5,208)	(175,854)
Depletion and depreciation	(42,575)	(243)	(42,818)
Balance – September 30, 2019	**(213,221)**	**(5,451)**	**(218,672)**
Carrying amounts			
Balance – December 31, 2018	679,626	346	679,972
Balance – September 30, 2019	**655,221**	**954**	**656,175**

During the nine months ended September 30, 2019, the Company recorded $42,020 (2018 – $23,531) of depletion, $344 (2018 – $344) of depreciation related to its Orion oil sands project, $353 (2018 – $0) of depreciation related to right-of-use assets and $101 (2018 – $68) related to corporate assets. The Company included $928,003 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended September 30, 2019 (2018 – $957,263).

(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	857	—	857
Capitalized depreciation	1,129	—	1,129
Changes to decommissioning assets	323	—	323
Disposition	(57)	—	(57)
Balance – September 30, 2019	**484,656**	**416**	**485,072**
Accumulated depreciation and impairment			
Balance – December 31, 2018	(455,450)	(293)	(455,743)
Depletion and depreciation	(1,129)	(16)	(1,145)
Balance – September 30, 2019	**(456,579)**	**(309)**	**(456,888)**
Carrying amounts			
Balance – December 31, 2018	26,954	123	27,077
Balance – September 30, 2019	**28,077**	**107**	**28,184**

During the nine months ended September 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 varies between LIBOR plus 7.5% and 9.5% per annum depending on OPC's ratio of debt to cash flow. The 2020 Loans continue to bear interest at LIBOR plus 5.5% per annum.

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 is subject to a quarterly cash sweep that is applied against the principal balance of the loans.

Total required amortization of US$525 per quarter is unchanged. However, any principal repaid as a result of the cash sweep offsets future required payments in the order of scheduled maturity.

Principal repaid through amortization and the cash sweep is 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 were substantially modified from those of the original term loan, the Company 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, on the June 30, 2019 amendment date, US$172,120 of the term loan and the related pro rata portion of unamortized deferred debt issue costs of $2,130 were derecognized. A new financial liability of US$172,120 representing the 2022 Loans was recorded and the associated debt issue costs of $1,898 were deferred.

On September 25, 2019, OPC completed an amendment to extend the maturity date of its US $15,000 senior secured first lien revolving loan by two years to April 30, 2022.

A summary of the senior credit facilities balances is shown below:

	September 30, 2019	December 31, 2018
Senior secured revolving loan – US$	—	—
Senior secured term loan – US$	189,500	201,075
Total senior secured credit facilities	189,500	201,075
Period end exchange rate – US$1 = C$	1.3242	1.3641
Senior secured term loan – C$	250,936	274,286
Less: unamortized deferred debt issue costs	(1,977)	(3,369)
	248,959	270,917
Less: current portion of long-term debt	(43,716)	(2,865)
Long-term debt	205,243	268,052

During the nine months ended September 30, 2019, the Company made principal repayments totaling US$11,575 or C$15,219 (2018 – US$1,575 or C$2,045) on the term loans. During the nine months ended September 30, 2019, $1,898 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 – $1,450) of deferred debt issue costs were amortized against the loan balance.

Under the terms of the cash sweep, based on the results for the three months ended September 30, 2019, the Company is required to prepay $23,295 of the principal balance of the term loans in the fourth quarter of 2019. The total of this amount and the outstanding principal balance of the 2020 Loans is classified as a current liability at September 30, 2019.

The estimated fair market value of the 2020 Loans as at September 30, 2019 was $21,990, compared with a carrying amount of $23,645. The estimated fair market value of the 2022 Loans as at September 30, 2019 approximated their carrying amount of $227,291. 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 September 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 September 30, 2019 is categorized as level 3 as it is based on unobservable inputs.

As at September 30, 2019 and December 31, 2018, the revolving loan was undrawn.

(Unaudited, expressed in thousands of Canadian dollars)

The senior secured credit facilities are subject to covenants by OPC, including maintaining minimum ratios of asset values to net senior secured debt. OPC was in compliance with all loan covenants as at September 30, 2019 and December 31, 2018.

9. Decommissioning Liabilities

	Nine months ended September 30, 2019
Balance – beginning of period	44,925
Liabilities settled	(248)
Changes to discount rates	7,519
Changes in estimates	(2,482)
Accretion	681
Balance – end of period	50,395

As at September 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 September 30, 2019, the Company used discount rates ranging from 1.4% to 1.6% (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 September 30, 2019, of the total decommissioning liability of $50,395 (December 31, 2018 – $44,925), $460 (December 31, 2018 – $793) was recorded as current within accounts payable, accrued liabilities and provisions and $49,935 (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 nine months ended September 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%

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

	Nine months ended September 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	(22)	8.45
Balance – end of period	6,244	2.49

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

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	1.3 years
$1.00	25	25	1.3 years
$2.25	4,470	4,329	2.6 years
$2.50	571	285	4.5 years
$3.00	564	564	1.3 years
$3.10	463	115	5.4 years
$8.11	25	25	1.3 years
$9.00	76	76	2.0 years
	6,244	5,469	2.8 years

(Unaudited, expressed in thousands of Canadian dollars)

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

During the nine months ended September 30, 2019, the Company's Board of Directors approved the issuance of 559,700 RSUs and 897,400 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 nine months ended September 30, 2019

(thousands)	RSUs	PSUs
Balance – beginning of period	2,371	3,990
Granted	560	897
Forfeited	(42)	(10)
Vested and settled	(940)	(1,761)
Balance – end of period	1,949	3,116

As at September 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 September 30, 2019, $2,421 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 $1,698 (December 31, 2018 – $2,420) were classified as non-current.

As at September 30, 2019 using the same assumptions for share units that vest and are equity-settled, the Company estimated that it would pay $2,948 in tax withholdings, of which $1,280 were expected to be incurred in the next 12 months. Such amounts are included in the Company's commitments in note 15.

During the nine months ended September 30, 2019, 939,735 RSUs and 1,760,820 PSUs were settled which resulted in the issuance of 880,793 shares and $7,205 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.

(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 nine months ended September 30, 2019
Balance – beginning of period	67,410
Share-based compensation	2,540
Share units settled	(3,038)
Balance – end of period	66,912

(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 September 30, 2019	Nine months ended September 30, 2019
Weighted average common shares outstanding	132,498	131,529
Effect of dilutive securities	2,965	2,852
Weighted average common shares outstanding, diluted	135,463	134,381

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 nine months ended September 30, 2019, the Company's net income per share was $0.11 and $0.04, respectively, and did not differ from diluted earnings per share. For the three and nine months ended September 30, 2018, the Company's net income per share of $0.15 and net loss per share of $0.18, respectively, did not differ from diluted earnings and loss per share.

(Unaudited, expressed in thousands of Canadian dollars)

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:

	Nine months ended September 30, 2019
Balance – beginning of period	64,048
Implied interest benefit	4,624
Revenue – deferred consideration	(2,045)
Balance – end of period	66,627
Less: current portion of deferred consideration	(2,278)
Deferred consideration	64,349

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 nine months ended September 30, 2019, the Company recognized $2,045 (2018 – $5,403) of revenue related to the deferred consideration.

12. Lease Liabilities

	Nine months ended September 30, 2019
Balance – beginning of period (recorded on adoption of IFRS 16)	1,306
Liabilities incurred	290
Interest expense – lease liabilities (note 14)	73
Lease payments	(452)
Liabilities derecognized	(55)
Balance – end of period	1,162
Less: current portion of lease liabilities	(533)
Long term portion of lease liabilities	629

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 new leases during the nine months ended September 30, 2019 was 11.6%.

(Unaudited, expressed in thousands of Canadian dollars)

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 September 30, 2019
Year 1	620
Year 2	487
Year 3	198
Total	1,305

13. Petroleum Sales

Petroleum sales include sales of blended bitumen and revenue from sales of purchased diluent in excess of the Company's blending requirements. The associated purchases of those excess volumes are included in product purchases on the consolidated statement of income (loss). Also included in product purchases are purchases of blended bitumen necessary to meet contractual commitments. The table below summarizes petroleum sales for the current and comparative periods:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Blended bitumen sales	149,702	80,268	412,619	199,694
Diluent sales	9,468	763	13,918	1,895
Petroleum sales	159,170	81,031	426,537	201,589

14. Net Finance Costs

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest expense and fees – long-term debt	7,596	5,329	20,923	15,326
Amortization and derecognition of deferred transaction costs (note 8)	185	496	3,333	1,450
Interest income	(440)	(556)	(1,110)	(2,290)
Interest expense – deferred consideration (note 11)	1,562	1,496	4,624	4,521
Interest expense – lease liabilities (note 12)	26	—	73	—
Realized foreign exchange loss (gain)	(116)	(53)	275	193
Net finance costs	8,813	6,712	28,118	19,200

(Unaudited, expressed in thousands of Canadian dollars)

15. Contractual Obligations and Commitments

The information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations for its oil sands properties and its general corporate activities as at September 30, 2019.

	Total	2019	2020	2021	2022+
Contracts and purchase orders (1)	2,938	702	2,226	10	—
Transportation agreements (2)	70,079	3,269	13,076	13,076	40,658
Outstanding share units (3)	6,593	—	1,774	2,491	2,328
Interest and fees on term loan (4)	64,820	7,231	23,221	21,836	12,532
Repayment of term loan (4)	250,936	23,295	20,663	—	206,978
Total	395,366	34,497	60,960	37,413	262,496

(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 September 30, 2019.

16. Supplemental Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Changes in non-cash operating working capital				
Accounts receivable	(5,021)	(7,745)	(20,661)	(10,008)
Prepaid expenses and other assets	(739)	552	5	76
Accounts payable and accrued liabilities	1,648	2,896	8,367	8,035
	(4,112)	(4,297)	(12,289)	(1,897)
Changes in non-cash investing working capital				
Accounts receivable	46	4	592	—
Accounts payable and accrued liabilities	(736)	(9,562)	(836)	1,560
	(690)	(9,558)	(244)	1,560
Supplemental cash flow information				
Cash interest earned	253	514	929	2,196
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	(15,219)	(379)
Debt issue costs	(1,898)	—
Non-cash changes:		
Unrealized foreign exchange gain	(8,174)	—
Amortization and derecognition of debt issue costs	3,333	—
Lease liabilities incurred	—	290
Lease liabilities derecognized	—	(55)
Balance as at September 30, 2019	248,959	1,162

Corporate Information

Directors

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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.
Chief Operating Officer

Dr. Peter Putnam, P.Geol.
Sr. Vice President, Geoscience

Dr. Jen Russel-Houston, P.Geol
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