Osum Oil Sands Corp.

Q1 2020 Interim Report to Shareholders

Dated May 6, 2020

Q1 2020 Interim Report

Review and Outlook

Q1 2020 Review

At its start, 2020 appeared promising for the Canadian energy industry with a more balanced supply and demand outlook and stability in world oil prices. However, market conditions soon began to deteriorate, initially with a widening of the light/heavy oil price differential, and then accelerating in March with the global spread of a novel coronavirus, COVID-19 and the failure of OPEC+ to reach an agreement to restrict supply in the face of slowing economic activity. The combination resulted in a quick and severe drop in world oil prices and, in turn, the Company's revenue.

Despite the collapse, Osum generated a netback after the impacts of hedging of $22.0 million in the first quarter. In addition, as a result of strong performance during the fourth quarter of 2019, the Company prepaid $26.4 million (US$18.8 million) of its outstanding term loan on March 31, 2020. After the prepayment, Osum's cash position including restricted cash at March 31, 2020 was $111.9 million compared with $125.6 million at December 31, 2019.

Production

Average production at Orion of 20,024 bbl/d in the first quarter was 3% lower than 20,540 bbl/d in the prior quarter but in line with expectations. Beginning in March 2020, the Company was subject to the Province's curtailment rules, with a monthly limit of just above 20,000 bbl/d. Production in late March was voluntarily reduced as prices dropped to unprofitable levels.

Operating netback

Osum generated a field netback in the period of $8.8 million or $4.82/bbl, significantly lower than $51.1 million or $27.05/bbl in the prior quarter. Including realized financial hedging gains, the netback in the first quarter was $22.0 million or $12.10/bbl, 52% lower than $45.7 million or $24.16/bbl in the prior period. The following positive and negative factors contributed to the lower overall total and per unit adjusted netbacks:

- The combination of a 19% decrease in the average US$ price of West Texas Intermediate ("WTI") oil and a 28% wider US$ differential between WTI and Cold Lake Blend ("CLB"), partially offset by a weaker Canadian dollar, led to the average index price of CLB in Canadian dollars being $19.82/bbl or 37% lower than the prior quarter. Combined with a higher seasonal blending ratio and higher price of condensate relative to WTI, the result was an average realized bitumen price for the period of $16.32/bbl, compared with $41.12/bbl in the prior quarter, a decrease of 60%.
- Average royalties in the third quarter were $1.17/bbl or 7.2% of the average realized bitumen price, compared with $2.94/bbl or 7.2% in the prior period. The lower unit cost was driven by lower bitumen pricing in the quarter.

- Average total unit operating costs of $10.25/bbl were 8% lower than $11.13/bbl in the prior quarter:
  - Average non-fuel operating costs were $7.64/bbl, largely consistent with $8.05/bbl in the prior period.
  - Average fuel costs of $2.61/bbl were 15% lower than $3.08/bbl in the prior quarter, mainly due to an 18% decrease in the average AECO gas price.
- Realized net gains on financial hedges totaled $13.3 million or $7.28/bbl, compared with net losses of $5.5 million or $2.89/bbl in the prior quarter. The gains were consistent with the lower average bitumen pricing in the quarter.

Other noteworthy items

- Capital expenditures in the quarter were $9.2 million, of which $3.0 million was incurred to install pumps and associated surface infrastructure on several wells. In addition, $1.9 million of expenditures was related to the drilling of four wells delineating the Upper Grand Rapids formation at Orion, a bitumen zone that the Company is evaluating for future development. The bulk of the Company's capital expenditures in the first quarter were incurred prior to the collapse of oil prices in March.
- Net general and administrative expenses were $3.3 million, compared with $3.7 million in the prior quarter. The decrease was mainly due to the true-up of the 2019 bonus accrual that was recorded in the fourth quarter of 2019 to reflect strong annual performance.
- Net finance costs of $4.1 million were lower than $8.5 million in the prior quarter. The decrease was largely due to a realized foreign exchange gain of $2.6 million resulting from the appreciation of Company's US$ cash balances from December 31, 2019 to March 31, 2020. In addition, interest expense on the Company's term loan decreased $1.4 million or 21% due to a lower average principal balance and to a lower average interest rate, which decreased as a result of the Company's improved leverage ratio.
- On March 31, 2020 the Company prepaid $26.4 million (US$18.8 million) of its outstanding term loan. The prepayment represented 75% of excess cash generated in the fourth quarter of 2019. In May of 2020, the Company will prepay an additional $10.7 million (US$7.6 million) from excess cash generated in the first quarter.
- Net unrealized hedging asset totaled $49.4 million at March 31, 2020, mainly reflecting the significant weakening of future WTI oil prices, partially offset by the narrowing of the future light/heavy oil price differential, since the time the outstanding hedges were put in place.

Outlook

The twin specters of the COVID-19 pandemic and very low oil prices are putting the energy industry to the test. However, the work Osum has done over the last few years to grow its production, lower its cost structure, reduce and extend its debt, and hedge commodity prices has positioned the Company to navigate the financial and operational challenges presented by the current market environment.

First and foremost amongst Osum's priorities at this difficult time is protecting the safety and health of its employees. The Company is following government guidelines and has implemented internal measures that address preventative hygiene, social distancing, self-monitoring and travel. In addition, Osum activated its emergency response plan and formed a COVID-19 Preparedness and Response team that provides regular updates and current information on the pandemic to staff. The Company's ability to produce has not been impacted and we continue to operate Orion safely and responsibly.

A close second priority is ensuring the continued financial health of the Company. While the recent agreement by OPEC+ to cut oil production was a welcome development, the announced reduction in supply is not expected to be sufficient to counter the collapse in demand resulting from the falloff in economic activity due to the pandemic. As a consequence, oil prices have fallen to unprecedented levels, culminating in the price of WTI closing below zero for the first time ever on April 20th. The Company has acted swiftly to protect its balance sheet, preserve liquidity, and maintain financial flexibility. Steps taken to date include:

- Deferral or elimination of non-essential capital spending: With regulatory approval, the plant turnaround at Orion, originally scheduled for May and June of 2020, has been deferred to 2021. This move will not only reduce near-term capital spending but also will avoid having a large number of staff and contractors working in close proximity to one another at a time when maintaining proper social distance is of critical importance. In addition, planned capital expenditures at Orion have been rationalized to include only those necessary to maintain the safe and efficient operation of the wells and central processing facility. Debottlenecking and production growth projects have been deferred until prices recover.
- Reduction of overhead costs: Effective May 1, 2020, a significant portion of the Company's salaried staff and managers transitioned to part-time status. In addition, executive and senior manager cash compensation was reduced, and certain employee benefits were suspended or canceled. The Company is also expecting to recover a portion of personnel costs through the Canada Emergency Wage Benefit for the full duration of the program.
- Active management of production levels: Since March 31, 2020, the volatility of commodity prices has for periods led to blended bitumen prices that do not cover all and sometimes any of the costs of condensate, transportation, royalties and operating expenditures. As a result, the level of production at Orion is being actively managed to minimize the cash outflow. In doing so, Osum is balancing the volume that is optimum to produce at the facility from a technical and cost point of view, the volume of blend that it is able to ship and has committed to ship given pipeline constraints, and the volume of blend that the Company’s counterparties are willing to take given weakening downstream demand.
- Raising near-term hedging targets: In mid-March, the Company increased its hedging target for the second and third quarters of 2020 from 50% to 80% of production net of maximum royalties. The incremental hedges were executed at levels that approximate the Company's field break-even. At May 6, 2020, the mark-to-market value of the Company's hedging program was a net asset of $37.2 million, excluding April's net realized hedging gains of $11.5 million.

Annual General Meeting

The Company's Annual General Meeting ("AGM") of shareholders is scheduled for Monday, June 1, 2020 at 10:00 a.m. Calgary time. Shareholders of record on May 6, 2020 will receive the Company's Management Information Circular, Notice of Meeting, and Form of Proxy by mail. These materials and the Company's 2019 Annual Report are also available on Osum's website. In light of physical distancing guidelines currently in place in Alberta related to the COVID-19 outbreak, the Company has decided to host the AGM solely by means of remote communication and to limit the meeting to essential Company business. Instructions for participating via webcast or teleconference have been provided in the Notice of

Meeting. The Company does not intend to provide a corporate presentation following the formal portion of the meeting. As voting during the AGM will not be possible, all shareholders are strongly encouraged to vote not later than 48 hours prior to the start of the AGM, using the instructions contained in the Form of Proxy.

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, 2019.

For the three months ended	March 31, 2020	December 31, 2019	March 31, 2019
Business Environment (1)			
West Texas Intermediate (WTI) – US$/bbl	46.08	56.98	54.90
Cold Lake Blend (CLB) – US$/bbl	25.20	40.70	41.88
Differential – WTI less CLB – US$/bbl	20.88	16.28	13.02
Differential – CLB % of WTI	45.3%	28.6%	23.7%
Foreign exchange rate – C$/US$	1.3452	1.3200	1.3296
CLB – $/bbl	33.90	53.72	55.68
AECO gas – $/mcf	1.93	2.35	2.48
Operational (1) (2)			
Bitumen production – bbl/d	20,024	20,540	15,505
Blended bitumen sales – bbl/d	28,280	28,117	21,786
Net bitumen revenue – $/bbl	16.32	41.12	49.37
Royalties – $/bbl	(1.17)	(2.94)	(3.25)
Non-fuel operating costs – $/bbl	(7.64)	(8.05)	(10.62)
Fuel operating costs – $/bbl	(2.61)	(3.08)	(3.84)
Curtailment allotment purchases – $/bbl	(0.08)	—	(0.05)
Netback (3) – $/bbl	4.82	27.05	31.61
Realized net gain (loss) on financial risk management contracts – $/bbl	7.28	(2.89)	(9.16)
Adjusted netback (3) – $/bbl	12.10	24.16	22.45
Financial			
Cash flows from operating activities	19,500	37,875	7,643
Funds flow (4)	16,385	34,877	22,593
Net and comprehensive income	30,805	28,474	(40,663)
Netback (3)	8,788	51,108	44,114
Realized net gain (loss) on risk management contracts	13,257	(5,457)	(12,787)
Adjusted netback (3)	22,045	45,651	31,327
Net income per share (basic) – $	0.23	0.22	(0.31)
Capital investment (5)	9,197	4,921	4,254
General and administrative expenses (net) (6)	3,322	3,737	3,355
Cash and cash equivalents (7)	111,873	125,576	68,805
Working capital	120,799	64,701	26,311
Adjusted working capital (8)	73,066	82,133	70,680
Outstanding principal – long-term debt (9)	185,375	180,475	264,930
Shareholders' equity	536,514	504,809	428,796
Weighted average common shares outstanding	131,918	131,917	131,036

See footnotes on the next page.

(1) Business environment and operational metrics are averages for the quarter.
(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 and curtailment allotment purchases, 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 portions of the outstanding principal balances of the term loans 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)

	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	100,919	114,478
Restricted cash	10,954	11,098
Accounts receivable	15,677	26,063
Prepaid expenses and other assets	1,920	2,035
Financial risk management contracts (note 4)	78,056	4,256
Total current assets	207,526	157,930
Non-current assets:		
Property, plant and equipment (note 5)	639,502	644,868
Exploration, evaluation and other intangible assets (note 6)	28,205	28,297
Abandonment deposits	400	398
Deferred tax asset	48,043	63,280
Total assets	**923,676**	**894,773**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provisions (note 8)	18,057	22,925
Current portion of long-term debt (note 7)	30,022	42,833
Share unit liabilities (note 9)	7,863	5,284
Current portion of lease liabilities (note 11)	462	499
Financial risk management contracts (note 4)	28,688	20,268
Current portion of deferred consideration (note 10)	1,635	1,420
Total current liabilities	86,727	93,229
Non-current liabilities:		
Long-term debt (note 7)	183,780	178,688
Decommissioning liabilities (note 8)	48,729	48,657
Share unit liabilities (note 9)	1,058	2,820
Lease liabilities (note 11)	414	522
Deferred consideration (note 10)	66,454	66,048
Total non-current liabilities	300,435	296,735
Shareholders' equity		
Common shares (note 9)	1,035,596	1,035,592
Contributed surplus (note 9)	68,380	67,484
Cumulative deficit	(567,462)	(598,267)
Total shareholders' equity	536,514	504,809
Total liabilities and shareholders' equity	**923,676**	**894,773**

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)

For the three months ended March 31,	**2020**	**2019**
Revenue:		
Petroleum sales (note 12)	90,141	112,033
Deferred consideration (note 10)	982	669
Royalties	(2,129)	(4,537)
Revenue net of royalties	88,994	108,165
Gain (loss) on financial risk management contracts (note 4)	78,637	(82,553)
Revenue net of gain (loss) on financial risk management contracts	167,631	25,612
Expenses:		
Diluent and transportation	53,299	41,327
Product purchases (note 12)	7,107	1,814
Operating expenses	18,680	20,171
Curtailment allotment purchases	138	70
Depletion and depreciation (notes 5, 6)	14,696	12,081
General and administrative expenses	3,322	3,355
Share-based compensation expense (note 9)	1,549	2,464
Total expenses	98,791	81,282
Other expenses (income):		
Net finance costs (note 13)	4,120	7,109
Unrealized foreign exchange loss (gain) on long-term debt	18,463	(5,851)
Accretion (note 8)	216	244
Total other expenses	22,799	1,502
Net income (loss) before taxes	**46,041**	**(57,172)**
Deferred income tax expense (recovery)	15,236	(16,509)
Net and comprehensive income (loss)	**30,805**	**(40,663)**
Net income (loss) per share, basic (note 9)	$0.23	($0.31)
Net income (loss) per share, diluted (note 9)	$0.23	($0.30)
Weighted average number of common shares outstanding (thousands) (note 9):		
Basic	131,918	131,036
Diluted	136,055	134,493

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, 2020	131,917	1,035,592	67,484	(598,267)	504,809
Net income	—	—	—	30,805	30,805
Share-based compensation	—	—	900	—	900
Share issuance on settlement of share units (note 9)	1	4	(4)	—	—
Balance – March 31, 2020	**131,918**	**1,035,596**	**68,380**	**(567,462)**	**536,514**
Balance – January 1, 2019	131,036	1,032,554	67,410	(631,862)	468,102
Net loss	—	—	—	(40,663)	(40,663)
Share-based compensation	—	—	1,357	—	1,357
Balance – March 31, 2019	**131,036**	**1,032,554**	**68,767**	**(672,525)**	**428,796**

The accompanying condensed notes are an integral part of these interim consolidated financial statements. Refer to note 9 for further details on share capital.

Osum Oil Sands Corp.

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

For the three months ended March 31,	2020	2019
Cash provided by (used in)		
Operating activities:		
Net income (loss) for the period	30,805	(40,663)
Items not involving cash:		
Depletion and depreciation (notes 5, 6)	14,696	12,081
Unrealized foreign exchange loss (gain) on long-term debt	18,463	(5,851)
Share-based compensation expense (note 9)	1,549	2,464
Amortization of deferred transaction costs (notes 7, 13)	192	502
Accretion (note 8)	216	244
Interest expense – deferred consideration (notes 10, 13)	1,603	1,521
Change in fair value of financial risk management contracts (note 4)	(65,380)	69,766
Deferred income tax expense (recovery)	15,236	(16,509)
Revenue – deferred consideration (note 10)	(982)	(669)
Settlements of onerous contract	—	(118)
Settlements of share unit liabilities (note 9)	(6)	—
Settlements of decommissioning liabilities (note 8)	(7)	(175)
Funds flow from operating activities before changes in non-cash working capital	16,385	22,593
Change in non-cash operating working capital (note 15)	3,115	(14,950)
Total cash flows from operating activities	**19,500**	**7,643**
Investing activities:		
Property, plant and equipment expenditures (note 5)	(8,897)	(3,679)
Investment in exploration, evaluation and other intangible assets (note 6)	(300)	(575)
Disposition of exploration, evaluation and other intangible assets (note 6)	—	57
Change in abandonment deposits	(2)	(1)
Change in non-cash investing working capital (note 15)	2,514	(390)
Total cash used in investing activities	**(6,685)**	**(4,588)**
Financing activities:		
Principal repayments of long-term debt (note 7)	(26,374)	(701)
Principal payments of lease liabilities (note 11)	(144)	(104)
Total cash used in financing activities	**(26,518)**	**(805)**
Increase (decrease) in cash in period	(13,703)	2,250
Cash and cash equivalents – beginning of period	114,478	52,670
Restricted cash – beginning of period	11,098	13,885
Cash and cash equivalents – end of period	**100,919**	**55,749**
Restricted cash – end of period	**10,954**	**13,056**

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, 2019.

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, 2019.

These interim unaudited consolidated financial statements are presented in Canadian dollars ("C$"), the Company's functional currency, and all financial information is reported in thousands of dollars unless otherwise noted.

These interim consolidated financial statements reflect the activities of the Company and its wholly-owned subsidiaries. All intercompany transactions, balances, income and expenses have been eliminated on consolidation.

These interim consolidated financial statements were authorized for issue by the Board of Directors on May 6, 2020.

3. 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, 2019.

(Unaudited, expressed in thousands of Canadian dollars)

4. Financial Risk Management Contracts

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

For the three months ended March 31,	2020	2019
Realized net gain (loss)	13,257	(12,787)
Change in fair value	65,380	(69,766)
Net gain (loss) on financial risk management contracts	78,637	(82,553)

The following table summarizes the financial risk management contracts that were in place as at March 31, 2020. All contracts were fixed price swaps in Canadian dollars. The related fair values were recorded on the consolidated statement of financial position:

	2020			2021	
WTI	Q2	Q3	Q4	Q1	Total
bbl/d	7,750	14,432	8,850	4,600	
Avg. price ($/bbl)	74.32	61.79	73.47	63.80	
Fair value	27,160	23,024	20,860	5,729	76,773
WTI-WCS differential					
bbl/d	10,450	19,484	12,000	7,900	
Avg. price ($/bbl)	(28.08)	(25.68)	(27.23)	(25.88)	
Fair value	(7,378)	(7,880)	(3,282)	(2,256)	(20,796)
WTI-Condensate differential					
bbl/d	2,700	5,051	3,100	1,950	
Avg. price ($/bbl)	(5.97)	(6.91)	(5.94)	(4.73)	
Fair value	(526)	(3,717)	(2,352)	(538)	(7,133)
AECO gas					
GJ/d	9,500	11,150	11,150	6,000	
Avg. price ($/GJ)	1.58	1.57	1.62	2.21	
Fair value	(13)	103	384	52	526
Total fair value	19,243	11,530	15,610	2,987	49,370

At December 31, 2019, the Company had a net risk management liability of $16,012, comprised of a liability relating to WTI differential swaps of $4,029, a liability relating to WTI-WCS differential swaps of $15,312, an asset relating to WTI-Condensate differential swaps of $2,516 and an asset relating to AECO gas swaps of $813.

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

(Unaudited, expressed in thousands of Canadian dollars)

The following table sets out the impact of changes in forward commodity prices on net income before taxes related to changes in the fair value of financial risk management contracts in place as at March 31, 2020:

Price or rate	Change	Impact on net income before taxes
WTI	$1.00/bbl	3,261
WTI/WCS differential	$1.00/bbl	4,558
WTI/Condensate differential	$1.00/bbl	1,171
AECO gas	$0.05/GJ	173

Subsequent to March 31, 2020, the Company entered into financial risk management contracts with the following terms:

WTI	April 2020	May 2020	June 2020
bbl/d	5,500	5,200	5,200
Average price ($/bbl)	33.10	40.70	40.70
WTI-WCS differential			
bbl/d	—	7,200	7,200
Average price ($/bbl)	—	(25.90)	(25.90)
WTI-Condensate differential			
bbl/d	—	1,950	1,950
Average price ($/bbl)	—	(16.25)	(16.25)

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)

5. Property, Plant and Equipment

	Development and production assets	Corporate assets	Total
Cost			
Balance – December 31, 2019	872,407	6,420	878,827
Additions	7,989	247	8,236
Capitalized general and administrative expenses	661	—	661
Capitalized share-based compensation	175	—	175
Changes to decommissioning assets	(124)	—	(124)
Balance – March 31, 2020	**881,108**	**6,667**	**887,775**
Accumulated depletion and depreciation			
Balance – December 31, 2019	(228,413)	(5,546)	(233,959)
Depletion and depreciation	(14,224)	(90)	(14,314)
Balance – March 31, 2020	**(242,637)**	**(5,636)**	**(248,273)**
Carrying amounts			
Balance – December 31, 2019	643,994	874	644,868
Balance – March 31, 2020	**638,471**	**1,031**	**639,502**

During the three months ended March 31, 2020, the Company recorded $14,111 (2019 – $11,837) of depletion, $40 (2019 – $115) of depreciation related to its Orion oil sands project, $131 (2019 – $69) of depreciation related to right-of-use assets and $32 (2019 – $55) related to corporate assets. The Company included $862,542 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended March 31, 2020 (2019 – $936,330).

Impairment Assessments

During the three months ended March 31, 2020, the Company observed a decline in the average long-term price forecasts of a number of reserve engineering firms. The Company considered the price forecast decline an indicator of impairment for its Taiga and Orion CGUs and performed impairment tests at March 31, 2020.

(Unaudited, expressed in thousands of Canadian dollars)

The Company estimated the recoverable amount of both CGUs based on fair value less costs of disposal calculations. The fair values of the CGUs were estimated based on the present value of after-tax cash flows resulting from production from proved and probable reserves using assumptions consistent with those used by the Company's independent reserve evaluator, including capital and operating cost estimates, corporate tax rates, and a cost inflation factor of two percent, and using after-tax discount rates of 12% for Taiga and 10% for Orion. The following forward prices and foreign exchange rates were used to estimate the recoverable amounts as at March 31, 2020:

Year	Western Canadian Select (C$/bbl)	WTI at Cushing (US$/bbl)	Diluent (condensate) (C$/bbl)	AECO gas (C$/mmbtu)	Exchange rate (US$/C$)
2020	20.13	30.00	33.96	1.78	0.710
2021	34.77	41.18	50.10	2.22	0.731
2022	45.91	49.88	62.30	2.42	0.751
2023	52.70	55.87	69.60	2.54	0.760
2024	55.26	57.98	72.40	2.61	0.761
2025	56.63	59.22	73.85	2.69	0.763
2026	57.86	60.39	75.35	2.75	0.763
2027	59.10	61.60	76.88	2.81	0.763
2028	60.38	62.84	78.45	2.86	0.763
Remainder	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.763

Source: Average of GLJ Petroleum Consultants, McDaniel & Associates Consultants, Sproule Associates and Deloitte Research Evaluation & Advisory price forecasts, effective April 1, 2020.

Based on the calculations performed, the estimated recoverable amounts of the Taiga and Orion CGUs exceeded their carrying values and no impairment was recorded at March 31, 2020.

As at March 31, 2020, an increase to the after-tax discount rate used in the Company's impairment test of the Taiga CGU of 2% would have resulted in an impairment charge of approximately $45,000, while a US$2 decrease to the WTI price would not have resulted in an impairment charge.

As at March 31, 2020, an increase to the after-tax discount rate used in the Company's impairment test of the Orion CGU of 2% or a US$2 decrease to the WTI price would not have resulted in an impairment charge.

The fair value measurements are categorized as level 3 with inputs that are not based on observable market data.

(Unaudited, expressed in thousands of Canadian dollars)

6. Exploration, Evaluation and Other Intangible Assets

	Exploration and evaluation assets	Other Intangible assets	Total
Cost			
Balance – December 31, 2019	485,151	416	485,567
Additions	300	—	300
Changes to decommissioning assets	(10)	—	(10)
Balance – March 31, 2020	**485,441**	**416**	**485,857**
Accumulated depreciation and impairment			
Balance – December 31, 2019	(456,956)	(314)	(457,270)
Depreciation	(377)	(5)	(382)
Balance – March 31, 2020	**(457,333)**	**(319)**	**(457,652)**
Carrying amounts			
Balance – December 31, 2019	28,195	102	28,297
Balance – March 31, 2020	**28,108**	**97**	**28,205**

Impairment Assessments

The Company's E&E assets are comprised of its Saleski Joint Venture, Saleski West, Sepiko Kesik, and Liege properties, located in the Saleski area and its Portage property located in the Athabasca area.

Similar to its PP&E assets, the Company considered whether the decline in price forecasts of a number of reserve engineering firms was an indicator of impairment for its E&E assets. As the value of these assets is not tied to short or medium term price forecasts, and given the absence of market transactions, the decrease in forecast prices was not considered an indicator of impairment and an impairment test was not performed at March 31, 2020.

(Unaudited, expressed in thousands of Canadian dollars)

7. Long-term Debt

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

	March 31, 2020	December 31, 2019
Senior secured revolving loan – US$	—	—
Senior secured term loan – US$	153,155	171,908
Total senior secured loans – US$	153,155	171,908
Period end exchange rate – US$1 = C$	1.4064	1.2990
Total senior secured loans – C$	215,397	223,308
Less: unamortized deferred debt issue costs	(1,595)	(1,787)
	213,802	221,521
Less: current portion of long-term debt	(30,022)	(42,833)
Long-term debt	183,780	178,688

During the three months ended March 31, 2020, OPC made principal repayments totaling US$18,753 or C$26,374 (2019 – US$525 or C$701) on the term loan. During the three months ended March 31, 2020, $192 (2019 – $502) of deferred debt issue costs were amortized against the loan balance.

Under the terms of the term loan, 75% to 90% of quarterly cash flow in excess of deemed capital spending must be used to prepay the term loan. Based on the results for the three months ended March 31, 2020, OPC is required to prepay US$7,635 of the principal balance of the term loan in the second quarter of 2020. This amount and the outstanding principal balance of the portion of the loan due on July 31, 2020 are classified as a current liability at March 31, 2020.

The estimated fair market values of the loan as at March 31, 2020 and December 31, 2019 approximated its carrying value. The fair market value measurement of the loan was categorized as level 3 as it was based on unobservable inputs.

OPC's US$15,000 revolving loan was undrawn as at March 31, 2020 and December 31, 2019.

The senior secured loans 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 March 31, 2020 and December 31, 2019.

8. Decommissioning Liabilities

	Three months ended March 31, 2020
Balance – beginning of period	49,013
Liabilities settled	(7)
Changes to discount rates	5,346
Changes in estimates	(5,480)
Accretion	216
Balance – end of period	49,088

As at March 31, 2020, the Company estimated that the expenditures required to settle the decommissioning liabilities will be made over the next 35 years with the majority of payments being made around 2045. As at March 31, 2020, the Company used discount rates ranging from 0.5% to 1.3% (December 31, 2019 – 1.7% to 1.8%) based on the Bank of Canada's risk-free bond rates and an inflation rate of 0.9% (December 31, 2019 – 1.4%) to calculate the present value of the decommissioning liabilities.

At March 31, 2020, of the total decommissioning liability of $49,088 (December 31, 2019 – $49,013), $359 (December 31, 2019 – $356) was recorded as current within accounts payable, accrued liabilities and provisions and $48,729 (December 31, 2019 – $48,657) was recorded as non-current.

9. Share Capital

(a) Authorized

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

(b) Stock options

No stock options were issued during the three months ended March 31, 2020.

A summary of the changes in stock options outstanding in the period is as follows:

For the three months ended March 31, 2020	Number of options (000s)	Weighted average exercise price
Balance – beginning of period	6,085	2.49
Forfeited or expired	(9)	2.25
Balance – end of period	6,076	2.49

(Unaudited, expressed in thousands of Canadian dollars)

The following is a summary of the number of stock options outstanding and exercisable as at March 31, 2020:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	0.8 years
$1.00	25	25	0.8 years
$2.25	4,302	4,299	2.1 years
$2.50	571	422	4.0 years
$3.00	564	564	0.8 years
$3.10	463	231	4.9 years
$8.11	25	25	0.8 years
$9.00	76	76	1.5 years
	6,076	5,692	2.3 years

(c) RSUs and PSUs

During the three months ended March 31, 2020, the Company issued 371,600 (2019 – 554,800) RSUs and 1,050,000 (2019 – 892,900) PSUs to employees, directors and contractors of the Company. The RSUs and PSUs granted vest all at once on the third anniversary date. The number of PSUs that ultimately vest is subject to the Company satisfying certain performance criteria within a target range set by the Company's Board of Directors. A multiplier (ranging from 0.5 to 2.0) will be applied to any vested PSUs to the extent such performance criteria are satisfied. The performance factor for the PSUs granted in the period was assumed to be 1.0 on the grant date.

Notwithstanding the Board's discretion to settle vested units in cash or with shares, according to the terms of the share unit plan, a unitholder may elect to receive up to 50 percent of their vested units in the form of a cash payment. The Company therefore treats the share units 50% equity-settled and 50% cash-settled.

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

For the three months ended March 31, 2020 (thousands)	RSUs	PSUs
Balance – beginning of period	1,853	3,047
Granted	372	1,050
Forfeited	(17)	(9)
Vested and settled	(4)	—
Balance – end of period	2,204	4,088

As at March 31, 2020, 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 $4.40 per share unit (December 31, 2019 – $4.40) and performance factors for the PSUs ranging from 1.0 to 1.7 (December 31, 2019 – 1.0 to 1.3).

As at March 31, 2020, $7,863 of the Company's share unit liabilities were classified as current (December 31, 2019 – $5,284), relating to those RSUs and PSUs scheduled to vest or be settled in cash in the next twelve months, while $1,058 (December 31, 2019 – $2,820) were classified as non-current.

(Unaudited, expressed in thousands of Canadian dollars)

As at March 31, 2020 using the same assumptions for share units that vest and are equity-settled, the Company estimated that it would pay $5,616 in tax withholdings, of which $2,548 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 months ended March 31, 2020, 3,494 RSUs were settled which resulted in the issuance of 1,203 shares and $6 of cash payments, including payroll withholdings. The RSUs were settled 50% in cash and 50% in shares.

On March 30, 2020, 685,900 RSUs and 1,081,150 PSUs vested. These share units were settled on April 15, 2020, resulting in 711,218 shares being issued and $8,155 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 1.74. As these share units were settled subsequent to period end, they were included in the balance of share units outstanding and their related liabilities were included on the consolidated statement of financial position at March 31, 2020.

(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):

	Three months ended March 31, 2020
Balance – beginning of period	67,484
Share-based compensation	900
Share units settled	(4)
Balance – end of period	68,380

(e) Per share amounts

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

(thousands)	Three months ended March 31, 2020
Weighted average common shares outstanding	131,918
Effect of dilutive securities	4,137
Weighted average common shares outstanding, diluted	136,055

Basic net income 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 per share. The calculation of diluted weighted average common shares excludes shares related to stock options and warrants that are anti-dilutive. For the three months ended March 31, 2020, the Company's net income per share was $0.23 and diluted income per share was $0.23.

(Unaudited, expressed in thousands of Canadian dollars)

10. Deferred Consideration

In 2017, the Company sold a 4.0% gross overriding royalty interest on all current and future production from the Clearwater formation of its Orion property for cash proceeds.

Deferred consideration represents the portion of proceeds attributable to the upfront payment received for costs expected to be incurred by the Company in relation to future production of the royalty owner's 4.0% share of proved and probable reserves.

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

	Three months ended March 31, 2020
Balance – beginning of period	67,468
Implied interest benefit	1,603
Revenue – deferred consideration	(982)
Balance – end of period	68,089
Less: current portion of deferred consideration	(1,635)
Deferred consideration	66,454

The Company's deferred consideration is considered a contract liability that implicitly contains a financing component as the payment was received in advance of the Company's incurrence of any costs related to production of the royalty owner's share of proved and probable reserves. The imputed interest expense resulting from the financing component was recorded and the implied interest benefit was added to the deferred consideration. The imputed interest was calculated using 9.5%, which reflected the Company's estimated cost of borrowing at contract inception.

During the three months ended March 31, 2020, the Company recognized $982 (2019 – $669) of revenue related to the deferred consideration.

11. Lease Liabilities

	Three months ended March 31, 2020
Balance – beginning of period	1,021
Interest expense – lease liabilities (note 13)	23
Lease payments	(168)
Balance – end of period	876
Less: current portion of lease liabilities	(462)
Long term portion of lease liabilities	414

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. Discount rates ranging from 9.5% to 11.6% were used during the three months ended March 31, 2020.

(Unaudited, expressed in thousands of Canadian dollars)

Where the Company has the right to extend a lease term at its discretion and is reasonably certain to exercise the extension option, the extension option is included in the calculation of finance lease liability.

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

	As at March 31, 2020
Year 1	525
Year 2	399
Year 3	38
Total	962

12. Petroleum Sales and Product Purchases

In addition to sales of blended bitumen, petroleum sales include 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. Also included in product purchases are purchases of blended bitumen necessary to meet contractual commitments. The table below summarizes petroleum sales and product purchases. Comparative figures have been reclassified to conform with the current period presentation:

For the three months ended March 31,	2020	2019
Blended bitumen sales	88,681	110,669
Diluent sales	1,460	1,364
Petroleum sales	90,141	112,033
Blended bitumen purchases	5,647	450
Diluent purchases	1,460	1,364
Product purchases	7,107	1,814

13. Net Finance Costs

For the three months ended March 31,	2020	2019
Interest expense and fees – long-term debt	5,478	5,458
Amortization of deferred transaction costs (note 7)	192	502
Interest income	(536)	(356)
Interest expense – deferred consideration (note 10)	1,603	1,521
Interest expense – lease liabilities (note 11)	23	20
Realized foreign exchange gain	(2,640)	(36)
Net finance costs	4,120	7,109

(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 March 31, 2020.

	Total	2020	2021	2022	2023+
Contracts and purchase orders (1)	3,075	2,887	155	33	—
Transportation agreements (2)	67,041	13,307	13,076	10,621	30,037
Outstanding share units (3)	13,282	2,562	2,888	3,349	4,483
Interest and fees on term loan (4)	48,909	19,712	18,569	10,628	—
Repayment of term loan (4)	215,397	30,022	—	185,375	—
Total	347,704	68,490	34,688	210,006	34,520

(1) Minimum commitments or buyouts relating to contracts and purchase orders, including those related 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 loans using the foreign exchange and interest rates in effect as at March 31, 2020.

15. Supplemental Cash Flow Information

For the three months ended March 31,	2020	2019
Changes in non-cash operating working capital		
Accounts receivable	10,385	(21,189)
Prepaid expenses and other assets	115	(173)
Accounts payable and accrued liabilities	(7,385)	6,412
	3,115	(14,950)
Changes in non-cash investing working capital		
Accounts receivable	1	546
Accounts payable and accrued liabilities	2,513	(936)
	2,514	(390)

Supplemental cash flow information		
Cash interest earned	491	295
Cash interest paid	5,501	5,478

(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 – January 1, 2020	221,521	1,021
Cash changes:		
Principal repayments	(26,374)	(144)
Non-cash changes:		
Unrealized foreign exchange loss	18,463	—
Amortization of debt issue costs	192	—
Balance – March 31, 2020	213,802	876

Corporate Information

Directors

William A. Friley – Chairman
Independent Businessman

Roy Ben-Dor
Managing Director, 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
Chief Operating Officer, 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
Vice President, Geoscience

Auditor

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Calgary, Alberta

Independent Engineers

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Legal Counsel

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Registrar and Transfer Agent

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