Osum Oil Sands Corp.

Q2 2020 Interim Report to Shareholders

Dated August 5, 2020

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Review and Outlook

Q2 2020 Review

While price volatility has been a theme of the past few years, the level experienced in the second quarter, largely due to the impacts of the COVID-19 pandemic, was unprecedented. For the period, the price of West Texas Intermediate ("WTI") crude oil averaged US$27.85/bbl, the lowest for any three-month period in nearly two decades, with a trading range for the near-month contract of over US$60.00/bbl. The combination of low prices and an uncertain economic outlook put added stress on an already challenged sector, threatening the financial health of many companies in the industry.

Despite the tumultuous pricing environment, Osum was successful in managing its production and marketing strategy in the period to maximize cash flow, achieving a significantly higher netback and realizing a higher average bitumen price than the prior quarter. In particular, after lowering its initial production target for May to minimize expected cash losses, as pricing improved early in the month, the Company quickly ramped up production, secured pipeline capacity, and locked in post-index blend pricing for almost half of its monthly production at heavy oil differentials that were much narrower than the index set several weeks prior.

Higher realized pricing, combined with the stability provided by Osum's longstanding hedging program, propelled the Company's netback after the impacts of hedging to $24.7 million in the second quarter, and allowed Osum to reduce its gross debt net of unrestricted cash by $12.7 million in the period to $101.7 million at June 30, 2020. After prepaying $10.7 million (US$7.7 million) of its outstanding term loan on May 20, 2020, the Company's cash position including restricted cash at June 30, 2020 was $100.5 million compared with $111.9 million at March 31, 2020.

Operationally, the COVID-19 pandemic has not materially impacted Osum's ability to produce and the Company continues to operate Orion with the safety and health of employees as top priorities. The Company is following government guidelines and has implemented measures that address preventative hygiene, social distancing, self-monitoring and travel.

Production

Average production at Orion of 18,079 bbl/d in the second quarter was 10% lower than 20,024 bbl/d in the prior period. The decrease reflected the Company's decision to voluntarily reduce volumes in April to minimize cash outflows as prices had dropped to unprofitable levels. The partial recovery in prices that began in May resulted in production being returned to higher levels for the remainder of the quarter, with June production averaging close to the Company's curtailment limit of approximately 20,700 bbl/d.

Operating netback

Osum generated a field netback in the period of $17.6 million or $10.69/bbl, significantly higher than $8.8 million or $4.82/bbl in the prior quarter. Including realized financial hedging gains, the netback in the second quarter was $24.7 million or $14.98/bbl, 12% and 24%higher than $22.0 million or $12.10/bbl in the prior period. The following positive and negative factors contributed to the higher overall total and per unit adjusted netbacks:

- A 40% decrease in the average US$ price of WTI oil, partially offset by a 43% narrower US$ differential between WTI and Cold Lake Blend ("CLB") and a weaker Canadian dollar, led to the average index price of CLB in Canadian dollars being $11.82/bbl or 35% lower than the prior quarter. However, as noted above, the Company's realized pricing was significantly better than index due to the weighting of its production to May and June when index prices were strengthening, combined with Osum securing post-index WTI-CLB differentials for approximately 40% its May sales that were closer to the much narrower June index differential. Those factors, combined with a lower seasonal blending ratio and significantly lower price of condensate, resulted in an average realized bitumen price for the period of $19.89/bbl, which was 22% higher than $16.32/bbl in the prior quarter.

- Average royalties in the second quarter were $1.11/bbl or 5.6% of the average realized bitumen price, compared with $1.17/bbl or 7.2% in the prior period. The lower unit cost and royalty rate were reflective of a lower C$ WTI price in the quarter.
- Average total unit operating costs of $8.09/bbl were 21% lower than $10.25/bbl in the prior quarter:
    - Average non-fuel operating costs were $5.85/bbl, 23% lower than $7.64/bbl in the prior period. The decrease from the first to second quarter was driven by four main factors: lower electricity costs due to lower pool pricing; lower labour costs as a result of wages recovered under the Canada Emergency Wage Subsidy ("CEWS") program; lower subsurface repairs and maintenance expenditures reflecting cost control measures implemented following the collapse in oil prices; and a one-time adjustment to certain chemical-related costs that were overestimated in prior periods.
    - Average fuel costs of $2.24/bbl were 14% lower than $2.61/bbl in the prior quarter, mainly due to the Company's decision to reduce steam injection in April when bitumen prices were uneconomic, along with a 2% decrease in the average AECO gas price.
- Realized net gains on financial hedges totaled $7.1 million or $4.29/bbl in the period, compared with net gains of $13.3 million or $7.28/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the quarter were limited to $3.0 million, as costs at Orion were reduced to only those necessary to maintain the safe and efficient operation of the wells and central processing facility. With regulatory approval, the plant turnaround at Orion, originally scheduled for May and June of 2020, was deferred to 2021. The move not only reduced near-term capital spending but also avoided 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.
- Net general and administrative expenses were $3.1 million, compared with $3.3 million in the prior quarter. The decrease was mainly due to corporate wages recovered under the CEWS program.
- Net finance costs of $6.4 million were higher than $4.1 million in the prior quarter. The increase was largely due to a realized foreign exchange gain of $2.5 million in the first quarter that resulted from the appreciation in C$ terms of Osum's US$ cash balance from December 31, 2019 to March 31, 2020, compared with a realized loss of $0.4 million in the second quarter. Partially offsetting the loss, interest expense on the Company's term loan decreased $0.8 million or 15% due to a lower average principal balance and to a lower average interest rate, which decreased in line with a lower LIBOR.
- On May 20, 2020 Osum prepaid $10.7 million (US$7.7 million) of its outstanding term loan. The prepayment represented 75% of excess cash generated in the first quarter of 2020. Subsequent to June 30, 2020, the Company paid $18.4 million (US$13.7 million) to settle in full the portion of its term loan that matured on July 31, 2020.

- As at June 30, 2020, Osum revised the estimates of its decommissioning liabilities. The revisions were based on reports commissioned by the Company from independent specialists to review and estimate its site-specific abandonment and reclamation obligations. Largely as a result of the changes in estimates, along with changes to inflation and discount rates, Osum's total decommissioning liabilities decreased to $42.3 million at June 30, 2020 from $49.1 million at March 31, 2020.
- Net unrealized hedging asset totaled $6.7 million at June 30, 2020, mainly reflecting some weakening of future WTI oil prices, partially offset by the widening of the future light/heavy oil price differential, since the time the outstanding hedges were put in place.

Reserves

As detailed in its June 11, 2020 press release, Osum engaged GLJ Petroleum Consultants ("GLJ") to update its reserve assessments as of April 30, 2020, following the first quarter delineation program for the Company's Orion leases. The program confirmed the quality and extent of a previously identified Upper Grand Rapids channel-fill reservoir, and identified a thicker pay column in an area of the Clearwater reservoir. In addition, recovery factors at both Orion and Taiga were increased based on Orion well performance to date. Compared with its assessment at December 31, 2019, GLJ assigned 158.9 million barrels of total proved (1P) reserves, an increase of 17.3 million barrels (12%), and 698.3 million barrels of total proved plus probable (2P) reserves, an increase of 83.8 million barrels (14%).

Outlook

Osum's second quarter results were buoyed significantly by a very narrow WTI-CLB price differential of approximately US($5)/bbl on the sale of a portion of the Company's May and all of its June production. That unusually small discount reflected a sharp reduction in Canadian oil supply in response to the collapse in prices in March and April and to scheduled plant maintenance that reduced output from several large oil sands projects during the quarter. Much of that supply has now been or is in the process of being returned to market and as a result, the differential has widened and is expected to widen further, potentially into the mid-teens, a level that is more reflective of the cost of shipping crude by rail rather than pipeline. While at the same time, WTI has recovered to the US$40/bbl mark, unless there is further price appreciation to offset any future increase in the price discount, netbacks are likely to remain under pressure.

As a consequence, Osum will continue to prioritize protecting its balance sheet, preserving liquidity, and maintaining financial flexibility. In mid-March, the Company increased its hedging target for the third quarter of this year from 50% to 80% of production net of maximum royalties with the incremental hedges being executed at levels that are expected to cover the associated fixed and variable operating costs. In addition, during the quarter, Osum completed its targeted hedges through to the end of the second quarter of next year, and has starting hedging volumes for the third quarter of 2021. At August 5, 2020, the mark-to-market value of the Company's hedging program was a net liability of $16.3 million, excluding July's net realized hedging loss of $5.2 million.

Based on strip pricing, the Company plans to maintain production near its curtailment limit of just over 20,000 bbl/d for the balance of 2020. Steps taken in the second quarter to defer or eliminate non-essential capital spending will continue until there is a view to higher pricing and the easing of curtailment. Finally, measures to reduce overheads remain in place and the Company has qualified for the CEWS for the first four periods spanning from March 15 to July 4, 2020. The CEWS program was recently extended and amended for the periods from July 5 to December 19, 2020. The extent to which Osum will qualify for the extended CEWS periods will be subject to the Company's revenues in the second half of the year.

Shareholder and Board Changes

On July 31, 2020, Waterous Energy Fund ("WEF") affiliates acquired 45.3% of the common shares of the Company from affiliates of Blackstone Capital Partners ("Blackstone"), Warburg Pincus LLC ("Warburg") and GIC Private Limited. WEF is an energy-focused private equity firm headquartered in Calgary, with offices in New York and Houston. In conjunction with the sale and purchase, the representatives of Blackstone and Warburg on Osum's Board of Directors were replaced by WEF nominees. The Company welcomes Messrs. Adam Waterous (WEF's Chief Executive Officer), Andrew Kim (WEF's Chief Financial Officer), Michael Buckingham (WEF Managing Director) and Rob Morgan (Chief Executive Officer of Cona Resources Ltd., a WEF portfolio company) as Directors, effective August 5, 2020, and thanks Messrs. Roy Ben-Dor, Jeffrey Kelly, John Lee and Brian Reinsborough for their significant contributions to the Board over many years.

Financial and Operational Summary

The preparation of the financial and operational summary below and the interim consolidated financial statements on which they are based require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates. In preparing these figures, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to and described in the audited consolidated financial statements for the year ended December 31, 2019.

	Three months ended			Six months ended	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Business Environment [1]					
West Texas Intermediate (WTI) – US$/bbl	27.85	46.08	59.83	36.97	57.38
Cold Lake Blend (CLB) – US$/bbl	15.93	25.20	49.17	20.57	45.55
Differential – WTI less CLB – US$/bbl	11.92	20.88	10.66	16.40	11.83
Differential – CLB % of WTI	42.8%	45.3%	17.8%	44.4%	20.6%
Foreign exchange rate – C$/US$	1.3862	1.3452	1.3375	1.3657	1.3336
CLB – $/bbl	22.08	33.90	65.76	28.09	60.75
AECO gas – $/mcf	1.89	1.93	0.96	1.91	1.72
Operational [1] [2]					
Bitumen production – bbl/d	18,079	20,024	19,587	19,052	17,558
Blended bitumen sales – bbl/d	24,944	28,280	26,330	26,612	24,071
Net bitumen revenue – $/bbl	19.89	16.32	54.34	18.02	52.16
Royalties – $/bbl	(1.11)	(1.17)	(4.58)	(1.14)	(3.99)
Non-fuel operating costs – $/bbl	(5.85)	(7.64)	(8.47)	(6.79)	(9.42)
Fuel operating costs – $/bbl	(2.24)	(2.61)	(1.56)	(2.44)	(2.56)
Curtailment allotment purchases – $/bbl	—	(0.08)	(1.15)	(0.04)	(0.66)
Netback [3] – $/bbl	10.69	4.82	38.58	7.61	35.53
Realized net gain (loss) on financial risk management contracts – $/bbl	4.29	7.28	(12.30)	5.86	(10.92)
Adjusted netback [3] – $/bbl	14.98	12.10	26.28	13.47	24.61
Financial					
Cash flows from operating activities	5,958	19,500	35,824	25,458	43,467
Funds flow [4]	8,783	16,385	29,051	25,168	51,644
Net and comprehensive income (loss)	(35,216)	30,805	31,386	(4,411)	(9,277)
Netback [3]	17,604	8,788	68,786	26,392	112,900
Realized net gain (loss) on risk management contracts	7,060	13,257	(21,929)	20,317	(34,716)
Adjusted netback [3]	24,664	22,045	46,857	46,709	78,184
Net income (loss) per share (basic) – $	(0.27)	0.23	0.24	(0.03)	(0.07)
Capital investment [5]	2,961	9,197	5,919	12,158	10,173
General and administrative expenses (net) [6]	3,099	3,322	2,643	6,421	5,998
Cash and cash equivalents [7]	100,503	111,873	83,587	100,503	83,587
Working capital	77,209	120,799	67,816	77,209	67,816
Adjusted working capital [8]	84,854	73,066	82,585	84,854	82,585
Outstanding principal – long-term debt [9]	178,902	185,375	246,050	178,902	246,050
Shareholders' equity	501,882	536,514	460,777	501,882	460,777
Weighted average common shares outstanding	132,778	131,918	131,630	132,285	131,334

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)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	95,773	114,478
Restricted cash	4,730	11,098
Accounts receivable	27,926	26,063
Prepaid expenses and other assets	2,059	2,035
Financial risk management contracts (note 4)	31,039	4,256
Total current assets	161,527	157,930
Non-current assets:		
Property, plant and equipment (note 5)	624,184	644,868
Exploration, evaluation and other intangible assets (note 6)	27,633	28,297
Abandonment deposits	401	398
Deferred tax asset	61,883	63,280
Total assets	**875,628**	**894,773**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provisions (note 8)	24,038	22,925
Current portion of long-term debt (note 7)	18,611	42,833
Share unit liabilities (note 9)	2,522	5,284
Current portion of lease liabilities (note 11)	463	499
Financial risk management contracts (note 4)	37,690	20,268
Current portion of deferred consideration (note 10)	994	1,420
Total current liabilities	84,318	93,229
Non-current liabilities:		
Long-term debt (note 7)	177,503	178,688
Decommissioning liabilities (note 8)	41,924	48,657
Share unit liabilities (note 9)	1,473	2,820
Lease liabilities (note 11)	333	522
Deferred consideration (note 10)	68,195	66,048
Total non-current liabilities	289,428	296,735
Shareholders' equity		
Common shares (note 9)	1,037,584	1,035,592
Contributed surplus (note 9)	66,976	67,484
Cumulative deficit	(602,678)	(598,267)
Total shareholders' equity	501,882	504,809
Total liabilities and shareholders' equity	**875,628**	**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)

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Revenue:				
Petroleum sales (note 12)	62,238	155,334	152,379	267,367
Deferred consideration (note 10)	516	715	1,498	1,384
Royalties	(1,825)	(8,158)	(3,954)	(12,695)
Revenue net of royalties	60,929	147,891	149,923	256,056
Gain (loss) on financial risk management contracts (note 4)	(48,959)	9,730	29,678	(72,823)
Revenue net of gain (loss) on financial risk management contracts	11,970	157,621	179,601	183,233
Expenses:				
Diluent and transportation	28,287	54,562	81,586	95,889
Product purchases (note 12)	1,220	3,912	8,327	5,726
Operating expenses	13,301	17,875	31,981	38,046
Curtailment allotment purchases	1	2,041	139	2,111
Depletion and depreciation (notes 5, 6)	12,056	15,398	26,752	27,479
General and administrative expenses	3,099	2,643	6,421	5,998
Share-based compensation expense (note 9)	3,692	3,308	5,241	5,772
Total expenses	61,656	99,739	160,447	181,021
Other expenses (income):				
Net finance costs (note 13)	6,435	12,196	10,555	19,305
Unrealized foreign exchange loss (gain) on long-term debt	(7,225)	(5,154)	11,238	(11,005)
Accretion (note 8)	160	229	376	473
Total other expenses	(630)	7,271	22,169	8,773
Net income (loss) before taxes	**(49,056)**	**50,611**	**(3,015)**	**(6,561)**
Deferred income tax expense (recovery)	(13,840)	19,225	1,396	2,716
Net and comprehensive income (loss)	**(35,216)**	**31,386**	**(4,411)**	**(9,277)**
Net income (loss) per share, basic and diluted (note 9)	($0.27)	$0.24	($0.03)	($0.07)
Weighted average number of common shares outstanding (thousands) (note 9):				
Basic	132,778	131,630	132,285	131,334
Diluted	136,754	135,152	136,098	134,686

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 loss	—	—	—	(4,411)	(4,411)
Share-based compensation	—	—	1,484	—	1,484
Share issuance on settlement of share units (note 9)	712	1,992	(1,992)	—	—
Balance – June 30, 2020	**132,629**	**1,037,584**	**66,976**	**(602,678)**	**501,882**
Balance – January 1, 2019	131,036	1,032,554	67,410	(631,862)	468,102
Net loss	—	—	—	(9,277)	(9,277)
Share-based compensation	—	—	1,952	—	1,952
Share issuance on settlement of share units (note 9)	871	3,001	(3,001)	—	—
Balance – June 30, 2019	**131,907**	**1,035,555**	**66,361**	**(641,139)**	**460,777**

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)

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Cash provided by (used in)				
Operating activities:				
Net income (loss) for the period	(35,216)	31,386	(4,411)	(9,277)
Items not involving cash:				
Depletion and depreciation (notes 5, 6)	12,056	15,398	26,752	27,479
Unrealized foreign exchange loss (gain) on long-term debt	(7,225)	(5,154)	11,238	(11,005)
Share-based compensation expense (note 9)	3,692	3,308	5,241	5,772
Amortization of deferred transaction costs (notes 7, 13)	197	2,646	389	3,148
Accretion (note 8)	160	229	376	473
Interest expense – deferred consideration (notes 10, 13)	1,616	1,541	3,219	3,062
Change in fair value of financial risk management contracts (note 4)	56,019	(31,659)	(9,361)	38,107
Deferred income tax expense (recovery)	(13,840)	19,225	1,396	2,716
Revenue – deferred consideration (note 10)	(516)	(715)	(1,498)	(1,384)
Settlements of onerous contract	—	—	—	(118)
Settlements of share unit liabilities (note 9)	(8,160)	(7,133)	(8,166)	(7,133)
Settlements of decommissioning liabilities (note 8)	—	(21)	(7)	(196)
Funds flow from operating activities before changes in non-cash working capital	8,783	29,051	25,168	51,644
Change in non-cash operating working capital (note 15)	(2,825)	6,773	290	(8,177)
Total cash flows from operating activities	**5,958**	**35,824**	**25,458**	**43,467**
Investing activities:				
Property, plant and equipment expenditures (note 5)	(2,905)	(5,744)	(11,802)	(9,423)
Investment in exploration, evaluation and other intangible assets (note 6)	(56)	(175)	(356)	(750)
Disposition of exploration, evaluation and other intangible assets (note 6)	—	—	—	57
Change in abandonment deposits	(1)	(34)	(3)	(35)
Change in non-cash investing working capital (note 15)	(3,577)	836	(1,063)	446
Total cash used in investing activities	**(6,539)**	**(5,117)**	**(13,224)**	**(9,705)**
Financing activities:				
Principal repayments of long-term debt (note 7)	(10,660)	(13,780)	(37,034)	(14,481)
Debt issue costs	—	(2,008)	—	(2,008)
Principal payments of lease liabilities (note 11)	(129)	(137)	(273)	(241)
Total cash used in financing activities	**(10,789)**	**(15,925)**	**(37,307)**	**(16,730)**
Increase (decrease) in cash in period	(11,370)	14,782	(25,073)	17,032
Cash and cash equivalents – beginning of period	100,919	55,749	114,478	52,670
Restricted cash – beginning of period	10,954	13,056	11,098	13,885
Cash and cash equivalents – end of period	**95,773**	**70,511**	**95,773**	**70,511**
Restricted cash – end of period	**4,730**	**13,076**	**4,730**	**13,076**

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 August 5, 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, with the following addition:

Government grants

Since the last annual consolidated financial statements, the Company qualified for government grants under the Canada Emergency Wage Subsidy ("CEWS") program. The Company accounts for these government grants on a net basis against the costs to which they pertain. As such, subsidies received through the CEWS program are recorded as reductions to "operating expenses" for field-level employees and "general and administrative expenses" for corporate employees on the consolidated statement of net and comprehensive income (loss).

(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:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Realized net gain (loss)	7,060	(21,929)	20,317	(34,716)
Change in fair value	(56,019)	31,659	9,361	(38,107)
Net gain (loss) on financial risk management contracts	(48,959)	9,730	29,678	(72,823)

The following table summarizes the financial risk management contracts that were in place as at June 30, 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	Q3	Q4	Q1	Q2	Total
bbl/d	14,432	8,850	9,020	7,667	
Avg. price ($/bbl)	61.79	73.47	57.53	53.60	
Fair value	10,754	15,752	2,449	(924)	28,031
WTI-WCS differential					
bbl/d	19,484	12,000	12,718	10,581	
Avg. price ($/bbl)	(25.68)	(27.23)	(24.29)	(21.24)	
Fair value	(21,215)	(8,622)	(4,407)	(2,079)	(36,323)
WTI-Condensate differential					
bbl/d	5,051	3,100	3,698	2,914	
Avg. price ($/bbl)	(6.91)	(5.94)	(3.58)	(1.53)	
Fair value	661	43	466	(353)	817
AECO gas					
GJ/d	11,150	11,150	11,700	4,646	
Avg. price ($/GJ)	1.57	1.62	2.35	2.07	
Fair value	230	561	59	(26)	824
Total fair value	(9,570)	7,734	(1,433)	(3,382)	(6,651)

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 June 30, 2020:

Price or rate	Change	Impact on net income before taxes
WTI	$1.00/bbl	3,651
WTI/WCS differential	$1.00/bbl	5,004
WTI/Condensate differential	$1.00/bbl	1,348
AECO gas	$0.05/GJ	176

Subsequent to June 30, 2020, the Company entered into financial risk management contracts with the following terms:

WTI	Q2 2021	Q3 2021
bbl/d	—	2,706
Average price ($/bbl)	—	57.10
WTI-WCS differential		
bbl/d	—	3,653
Average price ($/bbl)	—	(21.80)
WTI-Condensate differential		
bbl/d	—	947
Average price ($/bbl)	—	(1.70)
AECO gas		
GJ/d	4,646	3,465
Average price ($/GJ)	2.11	2.42

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	10,377	265	10,642
Right-of-use asset additions	48	—	48
Capitalized general and administrative expenses	1,160	—	1,160
Capitalized share-based compensation	298	—	298
Changes to decommissioning assets	(6,844)	—	(6,844)
Balance – June 30, 2020	**877,446**	**6,685**	**884,131**
Accumulated depletion and depreciation			
Balance – December 31, 2019	(228,413)	(5,546)	(233,959)
Depletion and depreciation	(25,799)	(189)	(25,988)
Balance – June 30, 2020	**(254,212)**	**(5,735)**	**(259,947)**
Carrying amounts			
Balance – December 31, 2019	643,994	874	644,868
Balance – June 30, 2020	**623,234**	**950**	**624,184**

During the six months ended June 30, 2020, the Company recorded $25,574 (2019 – $26,955) of depletion, $81 (2019 – $229) of depreciation related to its Orion oil sands project, $260 (2019 – $223) of depreciation related to right-of-use assets and $73 (2019 – $62) related to corporate assets. The Company included $1,556,800 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended June 30, 2020 (2019 – $931,774).

Impairment Assessments

As at June 30, 2020, the Company did not observe any indicators of impairment for its Orion or Taiga cash-generating units since their last impairment tests at March 31, 2020.

(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	356	—	356
Changes to decommissioning assets	(256)	—	(256)
Balance – June 30, 2020	**485,251**	**416**	**485,667**
Accumulated depreciation and impairment			
Balance – December 31, 2019	(456,956)	(314)	(457,270)
Depreciation	(754)	(10)	(764)
Balance – June 30, 2020	**(457,710)**	**(324)**	**(458,034)**
Carrying amounts			
Balance – December 31, 2019	28,195	102	28,297
Balance – June 30, 2020	**27,541**	**92**	**27,633**

Impairment Assessments

The Company did not observe any indicators of impairment of its exploration and evaluation assets at June 30, 2020.

7. Long-term Debt

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

	June 30, 2020	December 31, 2019
Senior secured revolving loan – US$	—	—
Senior secured term loan – US$	145,487	171,908
Total senior secured loans – US$	145,487	171,908
Period end exchange rate – US$1 = C$	1.3576	1.2990
Total senior secured loans – C$	197,513	223,308
Less: unamortized deferred debt issue costs	(1,399)	(1,787)
	196,114	221,521
Less: current portion of long-term debt	(18,611)	(42,833)
Long-term debt	177,503	178,688

During the six months ended June 30, 2020, OPC made principal repayments totaling US$26,421 or C$37,034 (2019 – US$11,050 or C$14,481) on the term loan. During the six months ended June 30, 2020, $389 of deferred debt issue costs were amortized against the loan balance. During the six months ended June 30, 2019, $2,008 of debt issue costs were incurred, $2,130 of previously deferred debt issue costs related to extinguished loans were derecognized and $1,018 of deferred debt issue costs were amortized against the loan balance.

(Unaudited, expressed in thousands of Canadian dollars)

Under the terms of the term loan, 75% to 90% of OPC's 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 June 30, 2020, no prepayment is required. The outstanding principal balance of the portion of the loan due on July 31, 2020 was classified as a current liability at June 30, 2020 and was repaid in full as scheduled.

The estimated fair market values of the loan as at June 30, 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 June 30, 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 June 30, 2020 and December 31, 2019.

8. Decommissioning Liabilities

	Six months ended June 30, 2020
Balance – beginning of period	49,013
Liabilities settled	(7)
Changes to discount rates	9,377
Changes in estimates	(16,476)
Accretion	376
Balance – end of period	42,283

As at June 30, 2020, the Company revised the estimates of its decommissioning liabilities. The revisions were based on reports commissioned by the Company from independent specialists to review and estimate its site-specific abandonment and reclamation obligations.

As at June 30, 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. The Company used discount rates ranging from 0.3% to 1.0% (December 31, 2019 – 1.7% to 1.8%) based on the Bank of Canada's risk-free bond rates and an inflation rate of 1.0% (December 31, 2019 – 1.4%) to calculate the present value of the decommissioning liabilities.

At June 30, 2020, of the total decommissioning liability of $42,283 (December 31, 2019 – $49,013), $359 (December 31, 2019 – $356) was recorded as current within accounts payable, accrued liabilities and provisions and $41,924 (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 six months ended June 30, 2020.

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

For the six months ended June 30, 2020	Number of options (000s)	Weighted average exercise price
Balance – beginning of period	6,085	2.49
Forfeited or expired	(10)	2.25
Balance – end of period	6,075	2.49

The following is a summary of the number of stock options outstanding and exercisable as at June 30, 2020:

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	0.5 years
$1.00	25	25	0.5 years
$2.25	4,301	4,299	1.8 years
$2.50	571	426	3.7 years
$3.00	564	564	0.5 years
$3.10	463	231	4.7 years
$8.11	25	25	0.5 years
$9.00	76	76	1.3 years
	6,075	5,696	2.1 years

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

During the six months ended June 30, 2020, the Company issued 373,200 (2019 – 554,800) RSUs and 1,050,000 (2019 – 896,700) PSUs to employees, directors and contractors of the Company. The RSUs and PSUs granted vest all at once on the third anniversary date. The number of PSUs that ultimately vest is subject to the Company satisfying certain performance criteria within a target range set by the Company's Board of Directors. A multiplier (ranging from 0.5 to 2.0) will be applied to any vested PSUs to the extent such performance criteria are satisfied. The performance factor for the PSUs granted in the period was assumed to be 1.0 on the grant date.

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

(Unaudited, expressed in thousands of Canadian dollars)

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

For the six months ended June 30, 2020

(thousands)	RSUs	PSUs
Balance – beginning of period	1,853	3,047
Granted	373	1,050
Forfeited	(24)	(9)
Vested and settled	(689)	(1,081)
Balance – end of period	1,513	3,007

During the six months ended June 30, 2020, 689,390 RSUs and 1,081,150 PSUs were settled which resulted in the issuance of 712,421 shares and $8,166 of cash payments, including payroll withholdings. The RSUs and PSUs were settled 50% in cash and 50% in shares, and using a PSU factor of 1.7 and estimated share price of $4.40.

As at June 30, 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 June 30, 2020, $2,522 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 $1,473 (December 31, 2019 – $2,820) were classified as non-current.

As at June 30, 2020 using the same assumptions for share units that vest and are equity-settled, the Company estimated that it would pay $3,067 in tax withholdings, of which $1,700 were expected to be incurred in the next 12 months. Such amounts are included in the Company's commitments in note 14.

(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):

	Six months ended June 30, 2020
Balance – beginning of period	67,484
Share-based compensation	1,484
Share units settled	(1,992)
Balance – end of period	66,976

(Unaudited, expressed in thousands of Canadian dollars)

(e) Per share amounts

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

(thousands)	Three months ended June 30, 2020	Six months ended June 30, 2020
Weighted average common shares outstanding	132,285	131,334
Effect of dilutive securities	3,813	3,352
Weighted average common shares outstanding, diluted	136,098	134,686

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 and six months ended June 30, 2020, the Company's net loss per share of $0.27 and $0.03, respectively, did not differ from diluted earnings per share. For the three and six months ended June 30, 2019, the Company's net income (loss) per share was $0.24 and $(0.07), respectfully, and did not differ from diluted loss per share.

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:

	Six months ended June 30, 2020
Balance – beginning of period	67,468
Implied interest benefit	3,219
Revenue – deferred consideration	(1,498)
Balance – end of period	69,189
Less: current portion of deferred consideration	(994)
Deferred consideration	68,195

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

During the six months ended June 30, 2020, the Company recognized $1,498 (2019 – $1,384) of revenue related to the deferred consideration.

(Unaudited, expressed in thousands of Canadian dollars)

11. Lease Liabilities

	Six months ended June 30, 2020
Balance – beginning of period	1,021
Interest expense – lease liabilities (note 13)	44
Lease term extensions	48
Lease payments	(317)
Balance – end of period	796
Less: current portion of lease liabilities	(463)
Long term portion of lease liabilities	333

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 six months ended June 30, 2020.

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 June 30, 2020
Year 1	492
Year 2	306
Year 3	38
Total	836

(Unaudited, expressed in thousands of Canadian dollars)

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:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Blended bitumen sales	61,359	152,249	150,040	262,917
Diluent sales	879	3,085	2,339	4,450
Petroleum sales	62,238	155,334	152,379	267,367
Blended bitumen purchases	341	827	5,988	1,276
Diluent purchases	879	3,085	2,339	4,450
Product purchases	1,220	3,912	8,327	5,726

13. Net Finance Costs

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interest expense and fees – long-term debt	4,647	7,869	10,125	13,327
Amortization of deferred transaction costs (note 7)	197	2,646	389	3,148
Interest income	(210)	(314)	(746)	(670)
Interest expense – deferred consideration (note 10)	1,616	1,541	3,219	3,062
Interest expense – lease liabilities (note 11)	21	27	44	47
Realized foreign exchange loss (gain)	164	427	(2,476)	391
Net finance costs	6,435	12,196	10,555	19,305

(Unaudited, expressed in thousands of Canadian dollars)

14. Contractual Obligations and Commitments

The information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations for its oil sands properties and its general corporate activities as at June 30, 2020.

	Total	2020	2021	2022	2023+
Contracts and purchase orders (1)	2,748	1,462	1,269	17	—
Transportation agreements (2)	64,601	10,156	13,313	10,858	30,274
Outstanding share units (3)	9,905	13	2,578	3,087	4,227
Interest and fees on term loan (4)	31,957	7,751	15,300	8,906	—
Repayment of term loan (4)	197,513	18,611	—	178,902	—
Total	306,724	37,993	32,460	201,770	34,501

(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 June 30, 2020.

The $18,611 of maturing principal on the term loans was repaid in full on July 31, 2020, as scheduled.

15. Supplemental Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Changes in non-cash operating working capital				
Accounts receivable	(12,248)	5,549	(1,863)	(15,640)
Prepaid expenses and other assets	(139)	917	(24)	744
Accounts payable and accrued liabilities	9,562	307	2,177	6,719
	(2,825)	6,773	290	(8,177)
Changes in non-cash investing working capital				
Accounts receivable	(1)	—	—	546
Accounts payable and accrued liabilities	(3,576)	836	(1,063)	(100)
	(3,577)	836	(1,063)	446
Supplemental cash flow information				
Cash interest earned	183	253	674	295
Cash interest paid	4,668	5,494	10,169	10,919

(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	(37,034)	(273)
Non-cash changes:		
Unrealized foreign exchange loss	11,238	—
Amortization of debt issue costs	389	—
Lease term adjustments	—	49
Balance – June 30, 2020	196,114	796

Corporate Information

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Independent Businessman

Michael Buckingham
Managing Director, Waterous Energy Fund

Vincent Chahley
Independent Businessman

George Crookshank
Independent Businessman

Andrew Kim
Chief Financial Officer, Waterous Energy Fund

Francesco Mele
Chief Operating Officer, Azimuth Capital Management

Rob Morgan
President and Chief Executive Officer, Cona Resources Ltd.

Adam Waterous
Chief Executive Officer and Managing Partner, Waterous Energy Fund

Steve Spence
President and Chief Executive Officer, Osum Oil Sands Corp.

Officers

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President and CEO

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