Osum Oil Sands Corp.

Q3 2020 Interim Report to Shareholders

Dated November 5, 2020

Q3 2020 Interim Report	**Page**

Waterous Energy Fund Take-over Bid

On November 4, 2020, WEF Osum Acquisition Corp., a company wholly-owned by Waterous Energy Fund (“WEF”), the current owner of approximately 45% of the outstanding common shares of Osum Oil Sands Corp. ("Osum" or the "Company"), commenced an unsolicited formal take-over bid to acquire up to a maximum of 52,500,000 additional common shares of Osum, representing approximately 40% of the Company's outstanding common shares, or approximately 72% of the shares not already owned by WEF, for cash consideration of $2.40 per share (the “Take-over Bid”). **The Take-over Bid is open for 105 days and there is no immediate need to take any action.**

Osum’s Board of Directors has formed a special committee of independent directors (the “Special Committee”) to consider the Take-over Bid. Osum expects to mail a Directors’ Circular to shareholders on or before November 19, 2020.

Osum shareholders are advised to **TAKE NO ACTION** with respect to the Take-over Bid and **NOT TENDER SHARES** until receiving further communication and a recommendation from the Board, who will consider the Take-over Bid with Osum’s advisors and the Special Committee. The Special Committee will conduct a full review of the Take-over Bid to determine what is in the best interests of Osum and its shareholders.

Review and Outlook

Q3 2020 Review

Following the tumultuous pricing environment in the prior period, higher realized pricing propelled the Company's netback after the impacts of hedging to $33.9 million in the third quarter, and allowed Osum to reduce its gross debt net of unrestricted cash by $25.7 million in the period to $76.1 million at September 30, 2020. After paying $18.4 million (US$13.7 million) to settle in full the portion of its term loan that matured on July 31, 2020, the Company's cash position including restricted cash at September 30, 2020 was $104.2 million compared with $100.5 million at June 30, 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. Osum continues to follow government guidelines and has implemented measures that address preventative hygiene, social distancing, self-monitoring and travel.

Production

Average production at Orion of 19,759 bbl/d in the third quarter was 9% higher than 18,079 bbl/d in the prior period when volumes in April and early May were voluntarily reduced 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 that were then maintained through the third quarter.

Operating netback

Osum generated a field netback in the period of $46.9 million or $25.79/bbl, significantly higher than $17.6 million or $10.69/bbl in the prior quarter. Including realized financial hedging losses, the netback in the third quarter was $33.9 million or $18.66/bbl, 38% and 25% higher than $24.7 million or $14.98/bbl in the prior period. The following positive and negative factors contributed to the higher overall total and per unit adjusted netbacks:

- A 46% increase in the average US$ price of WTI oil and a 21% narrower US$ differential between WTI and Cold Lake Blend ("CLB"), partially offset by a stronger Canadian dollar, led to the average index price of CLB in Canadian dollars being $19.60/bbl or 89% higher than the prior quarter. Those factors, combined with a lower seasonal blending ratio but higher price of condensate, resulted in an average realized price for bitumen at the plant gate for the period of $36.79/bbl, which was 85% higher than $19.89/bbl in the prior quarter.
- Average royalties in the third quarter were $1.94/bbl or 5.3% of the average realized bitumen price, compared with $1.11/bbl or 5.6% in the prior period. The higher unit cost was reflective of a higher C$ WTI price in the quarter, while the decrease in the average royalty rate was due to negative bitumen revenue in April which inflated the rate in the prior period.
- Average total unit operating costs of $9.06/bbl were 12% higher than $8.09/bbl in the prior quarter:
    - Average non-fuel operating costs were $6.34/bbl, 8% higher than $5.85/bbl in the prior period. The increase was primarily due to higher electricity pricing, higher subsurface repairs and maintenance expenditures, and the one-time downward adjustment in the second quarter to certain chemical-related costs that were overestimated in prior periods.

    - Average fuel costs of $2.72/bbl were 21% higher than $2.24/bbl in the prior quarter, mainly due to higher steam generation in the third quarter following the Company's decision to reduce steam injection in April, along with a 12% increase in the average AECO gas price.
- Realized net losses on financial hedges totaled $13.0 million or $7.13/bbl in the period, compared with net gains of $7.1 million or $4.29/bbl in the prior quarter.

Other noteworthy items

- Capital expenditures in the period were limited to $3.5 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.
- Net general and administrative expenses were $3.2 million, consistent with $3.1 million in the prior quarter.
- Net finance costs of $5.7 million were lower than $6.4 million in the prior period. The reduction was largely due to lower interest expense on the Company's term loans, which decreased $0.7 million or 15% due to a lower principal balance beginning on July 31, 2020 following the $18.4 million repayment noted above.
- Net unrealized hedging liability totaled $7.9 million at September 30, 2020, mainly reflecting the narrowing of the future light/heavy oil price differential, partially offset by the weakening of future WTI oil prices, since the time the outstanding hedges were put in place.

Outlook

Due to the weakness in oil demand brought about by the current pandemic, and to a recovery in Canadian oil supply as a result of the return to market of volumes shut in due to scheduled plant maintenance or to the low prices experienced in the second quarter, heavy oil prices are expected to remain under pressure in the near term.

On October 22, 2020, Alberta's Minister of Energy announced that there will be no provincial production limit for the month of December 2020, but that curtailment has been extended to December 31, 2021. Any future curtailment orders will be issued to operators with 30-60 days' notice when deemed necessary by Alberta Energy based on its ongoing monitoring of production levels, available export capacity, and inventory levels.

As a consequence of these price and market risks, Osum will continue to prioritize protecting its balance sheet, preserving liquidity, and maintaining financial flexibility over more aggressive investment in its portfolio of growth opportunities. Until conditions change, based on current strip pricing and well performance, the Company expects to maintain production at current levels, averaging between 19,000 and 20,000 bbl/d. Osum has a hedging target of 50% of production net of maximum royalties and has completed its targeted hedges through the end of the third quarter of next year, and is starting to hedge volumes for the fourth quarter of 2021. At November 5, 2020, the mark-to-market value of the Company's hedging program was a net liability of $8.3 million, excluding October's net realized hedging gain of $0.5 million.

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			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Business Environment [1]					
West Texas Intermediate (WTI) – US$/bbl	40.70	27.85	56.45	38.22	57.07
Cold Lake Blend (CLB) – US$/bbl	31.30	15.93	44.72	24.17	45.27
Differential – WTI less CLB – US$/bbl	9.40	11.92	11.73	14.05	11.80
Differential – CLB % of WTI	23.1 %	42.8 %	20.8 %	36.8 %	20.7 %
Foreign exchange rate – C$/US$	1.3317	1.3862	1.3208	1.3543	1.3293
CLB – $/bbl	41.68	22.08	59.07	32.73	60.18
AECO gas – $/mcf	2.11	1.89	0.86	1.98	1.43
Operational [1] [2]					
Bitumen production – bbl/d	19,759	18,079	19,306	19,289	18,147
Blended bitumen sales – bbl/d	26,139	24,944	25,867	26,453	15,959
Net bitumen revenue – $/bbl	36.79	19.89	51.10	24.47	51.78
Royalties – $/bbl	(1.94)	(1.11)	(3.69)	(1.42)	(3.88)
Non-fuel operating costs – $/bbl	(6.34)	(5.85)	(8.52)	(6.62)	(9.09)
Fuel operating costs – $/bbl	(2.72)	(2.24)	(1.50)	(2.54)	(2.18)
Curtailment allotment purchases – $/bbl	—	—	(1.33)	(0.03)	(0.90)
Netback [3] – $/bbl	25.79	10.69	36.06	13.86	35.73
Realized net gain (loss) on financial risk management contracts – $/bbl	(7.13)	4.29	(7.85)	1.39	(9.82)
Adjusted netback [3] – $/bbl	18.66	14.98	28.21	15.25	25.91
Financial					
Cash flows from operating activities	25,322	5,958	35,622	50,780	79,089
Funds flow [4]	26,706	8,783	39,734	51,874	91,378
Net and comprehensive income (loss)	13,933	(35,216)	14,398	9,522	5,121
Netback [3]	46,887	17,604	64,070	73,279	176,970
Realized net gain (loss) on risk management contracts	(12,969)	7,060	(13,941)	7,348	(48,657)
Adjusted netback [3]	33,918	24,664	50,129	80,627	128,313
Net income (loss) per share (basic) – $	0.11	(0.27)	0.11	0.07	0.04
Capital investment [5]	3,506	2,961	2,948	15,664	13,121
General and administrative expenses (net) [6]	3,242	3,099	3,205	9,663	9,203
Cash and cash equivalents [7]	104,216	100,503	114,803	104,216	114,803
Working capital	99,952	77,209	60,160	99,952	60,160
Adjusted working capital [8]	108,982	84,854	77,481	108,982	77,481
Outstanding principal – long-term debt [9]	175,555	178,902	207,220	175,555	207,220
Shareholders' equity	516,401	501,882	475,763	516,401	475,763
Weighted average common shares outstanding	132,635	132,778	132,498	132,403	131,529

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)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	99,487	114,478
Restricted cash	4,729	11,098
Accounts receivable	20,602	26,063
Prepaid expenses and other assets	2,032	2,035
Financial risk management contracts (note 4)	22,949	4,256
Total current assets	149,799	157,930
Non-current assets:		
Property, plant and equipment (note 5)	612,803	644,868
Exploration, evaluation and other intangible assets (note 6)	29,232	28,297
Abandonment deposits	460	398
Deferred tax asset	60,406	63,280
Total assets	**852,700**	**894,773**
Liabilities		
Current liabilities:		
Accounts payable, accrued liabilities and provisions (note 8)	15,787	22,925
Current portion of long-term debt (note 7)	—	42,833
Share unit liabilities (note 9)	1,493	5,284
Current portion of lease liabilities (note 11)	588	499
Financial risk management contracts (note 4)	30,823	20,268
Current portion of deferred consideration (note 10)	1,156	1,420
Total current liabilities	49,847	93,229
Non-current liabilities:		
Long-term debt (note 7)	174,324	178,688
Decommissioning liabilities (note 8)	41,788	48,657
Share unit liabilities (note 9)	1,052	2,820
Lease liabilities (note 11)	291	522
Deferred consideration (note 10)	68,997	66,048
Total non-current liabilities	286,452	296,735
Shareholders’ equity		
Common shares (note 9)	1,037,603	1,035,592
Contributed surplus (note 9)	67,543	67,484
Cumulative deficit	(588,745)	(598,267)
Total shareholders' equity	516,401	504,809
Total liabilities and shareholders' equity	**852,700**	**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
(Unaudited, expressed in thousands of Canadian dollars, except share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenue:				
Petroleum sales (note 12)	104,654	159,170	257,033	426,537
Deferred consideration (note 10)	680	661	2,178	2,045
Royalties	(3,528)	(6,549)	(7,482)	(19,244)
Revenue net of royalties	101,806	153,282	251,729	409,338
Gain (loss) on financial risk management contracts (note 4)	(14,192)	(16,308)	15,486	(89,131)
Revenue net of gain (loss) on financial risk management contracts	87,614	136,974	267,215	320,207
Expenses:				
Diluent and transportation	33,504	45,231	115,090	141,120
Product purchases (note 12)	4,268	23,175	12,595	28,901
Operating expenses	16,467	17,788	48,448	55,834
Curtailment allotment purchases	—	2,357	139	4,468
Depletion and depreciation (notes 5, 6)	13,184	15,354	39,936	42,833
General and administrative expenses	3,242	3,205	9,663	9,203
Share-based compensation expense (recovery) (note 9)	(696)	1,087	4,545	6,859
Total expenses	69,969	108,197	230,416	289,218
Other expenses (income):				
Net finance costs (note 13)	5,710	8,813	16,265	28,118
Unrealized foreign exchange loss (gain) on long-term debt	(3,573)	2,831	7,665	(8,174)
Accretion (note 8)	98	208	474	681
Total other expenses	2,235	11,852	24,404	20,625
Net income before taxes	**15,410**	**16,925**	**12,395**	**10,364**
Deferred income tax expense	1,477	2,527	2,873	5,243
Net and comprehensive income	**13,933**	**14,398**	**9,522**	**5,121**
Net income per share, basic and diluted (note 9)	$0.11	$0.11	$0.07	$0.04
Weighted average number of common shares outstanding (thousands) (note 9):				
Basic	132,635	132,498	132,403	131,529
Diluted	134,181	135,463	133,847	134,381

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	—	—	—	9,522	9,522
Share-based compensation	—	—	2,070	—	2,070
Share issuance on settlement of share units (note 9)	718	2,011	(2,011)	—	—
Balance – September 30, 2020	**132,635**	**1,037,603**	**67,543**	**(588,745)**	**516,401**
Balance – January 1, 2019	131,036	1,032,554	67,410	(631,862)	468,102
Net income	—	—	—	5,121	5,121
Share-based compensation	—	—	2,540	—	2,540
Share issuance on settlement of share units (note 9)	881	3,038	(3,038)	—	—
Balance – September 30, 2019	**131,917**	**1,035,592**	**66,912**	**(626,741)**	**475,763**

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 September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Cash provided by (used in)				
Operating activities:				
Net income for the period	13,933	14,398	9,522	5,121
Items not involving cash:				
Depletion and depreciation (notes 5, 6)	13,184	15,354	39,936	42,833
Unrealized foreign exchange loss (gain) on long-term debt	(3,573)	2,831	7,665	(8,174)
Share-based compensation expense (recovery) (note 9)	(696)	1,087	4,545	6,859
Amortization and derecognition of deferred transaction costs (notes 7, 13)	168	185	557	3,333
Accretion (note 8)	98	208	474	681
Interest expense – deferred consideration (notes 10, 13)	1,644	1,562	4,863	4,624
Change in fair value of financial risk management contracts (note 4)	1,223	2,367	(8,138)	40,474
Deferred income tax expense	1,477	2,527	2,873	5,243
Revenue – deferred consideration (note 10)	(680)	(661)	(2,178)	(2,045)
Settlements of onerous contract	—	—	—	(118)
Settlements of share unit liabilities (note 9)	(66)	(72)	(8,232)	(7,205)
Settlements of decommissioning liabilities (note 8)	(6)	(52)	(13)	(248)
Funds flow from operating activities before changes in non-cash working capital	26,706	39,734	51,874	91,378
Change in non-cash operating working capital (note 15)	(1,384)	(4,112)	(1,094)	(12,289)
Total cash flows from operating activities	**25,322**	**35,622**	**50,780**	**79,089**
Investing activities:				
Property, plant and equipment expenditures (note 5)	(3,419)	(2,841)	(15,221)	(12,264)
Investment in exploration, evaluation and other intangible assets (note 6)	(87)	(107)	(443)	(857)
Disposition of exploration, evaluation and other intangible assets (note 6)	—	—	—	57
Change in abandonment deposits	(59)	(2)	(62)	(37)
Change in non-cash investing working capital (note 15)	484	(690)	(579)	(244)
Total cash used in investing activities	**(3,081)**	**(3,640)**	**(16,305)**	**(13,345)**
Financing activities:				
Principal repayments of long-term debt (note 7)	(18,385)	(738)	(55,419)	(15,219)
Debt issue costs	—	110	—	(1,898)
Principal payments of lease liabilities (note 11)	(143)	(138)	(416)	(379)
Total cash used in financing activities	**(18,528)**	**(766)**	**(55,835)**	**(17,496)**
Increase (decrease) in cash in period	3,713	31,216	(21,360)	48,248
Cash and cash equivalents – beginning of period	95,773	70,511	114,478	52,670
Restricted cash – beginning of period	4,730	13,076	11,098	13,885
Cash and cash equivalents – end of period	**99,487**	**103,657**	**99,487**	**103,657**
Restricted cash – end of period	**4,729**	**11,146**	**4,729**	**11,146**

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 November 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Realized net gain (loss)	(12,969)	(13,941)	7,348	(48,657)
Change in fair value	(1,223)	(2,367)	8,138	(40,474)
Net gain (loss) on financial risk management contracts	(14,192)	(16,308)	15,486	(89,131)

The following table summarizes the financial risk management contracts that were in place as at September 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	Q4	Q1	Q2	Q3	Total
bbl/d	8,850	9,020	7,667	9,020	
Avg. price ($/bbl)	73.47	57.53	53.60	58.00	
Fair value	15,738	1,709	(1,998)	725	16,174
WTI-WCS differential					
bbl/d	12,000	12,718	10,581	12,177	
Avg. price ($/bbl)	(27.23)	(24.29)	(21.24)	(20.56)	
Fair value	(14,291)	(6,586)	(4,137)	(2,728)	(27,742)
WTI-Condensate differential					
bbl/d	3,100	3,698	2,914	3,157	
Avg. price ($/bbl)	(5.94)	(3.58)	(1.53)	(1.43)	
Fair value	1,575	1,057	70	(1,040)	1,662
AECO gas					
GJ/d	11,150	11,700	9,292	11,550	
Avg. price ($/GJ)	1.62	2.35	2.09	2.57	
Fair value	969	706	364	(7)	2,032
Total fair value	3,991	(3,114)	(5,701)	(3,050)	(7,874)

At December 31, 2019, the Company had a net financial 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 September 30, 2020:

Price or rate	Change	Impact on net income before taxes
WTI	$1.00/bbl	3,154
WTI/WCS differential	$1.00/bbl	4,332
WTI/Condensate differential	$1.00/bbl	1,174
AECO gas	$0.05/GJ	199

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

WTI	Q4 2021
bbl/d	2,942
Average price ($/bbl)	54.37
WTI-WCS differential	
bbl/d	4,119
Average price ($/bbl)	(19.25)
WTI-Condensate differential	
bbl/d	1,177
Average price ($/bbl)	(1.10)
AECO gas	
GJ/d	3,812
Average price ($/GJ)	2.95

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	13,267	288	13,555
Right-of-use asset additions	275	—	275
Capitalized general and administrative expenses	1,666	—	1,666
Capitalized share-based compensation	196	—	196
Changes to decommissioning assets	(8,967)	—	(8,967)
Balance – September 30, 2020	**878,844**	**6,708**	**885,552**
Accumulated depletion and depreciation			
Balance – December 31, 2019	(228,413)	(5,546)	(233,959)
Depletion and depreciation	(38,501)	(289)	(38,790)
Balance – September 30, 2020	**(266,914)**	**(5,835)**	**(272,749)**
Carrying amounts			
Balance – December 31, 2019	643,994	874	644,868
Balance – September 30, 2020	**611,930**	**873**	**612,803**

During the nine months ended September 30, 2020, the Company recorded $38,158 (2019 – $42,020) of depletion, $121 (2019 – $344) of depreciation related to its Orion oil sands project, $394 (2019 – $353) of depreciation related to right-of-use assets and $117 (2019 – $101) of depreciation related to corporate assets. The Company included $1,155,800 of future development costs associated with proved plus probable reserves in its depletion calculation for the period ended September 30, 2020 (2019 – $928,003).

Impairment Assessments

As at September 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	442	—	442
Changes to decommissioning assets	1,640	—	1,640
Balance – September 30, 2020	**487,233**	**416**	**487,649**
Accumulated depreciation and impairment			
Balance – December 31, 2019	(456,956)	(314)	(457,270)
Depreciation	(1,131)	(16)	(1,147)
Balance – September 30, 2020	**(458,087)**	**(330)**	**(458,417)**
Carrying amounts			
Balance – December 31, 2019	28,195	102	28,297
Balance – September 30, 2020	**29,146**	**86**	**29,232**

Impairment Assessments

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

7. Long-term Debt

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

	September 30, 2020	December 31, 2019
Senior secured revolving loan – US$	—	—
Senior secured term loan – US$	131,778	171,908
Total senior secured loans – US$	131,778	171,908
Period end exchange rate – US$1 = C$	1.3322	1.2990
Total senior secured loans – C$	175,555	223,308
Less: unamortized deferred debt issue costs	(1,231)	(1,787)
	174,324	221,521
Less: current portion of long-term debt	—	(42,833)
Long-term debt	174,324	178,688

During the nine months ended September 30, 2020, OPC made principal repayments totaling US$40,130 or C$55,419 (2019 – US$11,575 or C$15,219) on the term loan. During the nine months ended September 30, 2020, $557 of deferred debt issue costs were amortized against the loan balance. During the nine months ended September 30, 2019, $1,898 of debt issue costs were incurred, $2,130 of previously deferred debt issue costs related to 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)

During the three months ended September 30, 2020, the Company paid US$13,709 (C$18,385) to settle in full the portion of its term loan that matured on July 31, 2020.

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 September 30, 2020, no prepayment was required.

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

8. Decommissioning Liabilities

	Nine months ended September 30, 2020
Balance – beginning of period	49,013
Liabilities settled	(13)
Changes to discount rates	8,235
Changes in estimates	(15,562)
Accretion	474
Balance – end of period	42,147

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 September 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 0.2% to 1.1% (December 31, 2019 – 1.7% to 1.8%) based on the Bank of Canada's risk-free bond rates and an inflation rate of 1.1% (December 31, 2019 – 1.4%) to calculate the present value of the decommissioning liabilities.

At September 30, 2020, of the total decommissioning liability of $42,147 (December 31, 2019 – $49,013), $359 (December 31, 2019 – $356) was recorded as current within accounts payable, accrued liabilities and provisions and $41,788 (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 nine months ended September 30, 2020.

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

For the nine months ended September 30, 2020	Number of options (000s)	Weighted average exercise price
Balance – beginning of period	6,085	2.49
Forfeited or expired	(19)	5.41
Balance – end of period	6,066	2.49

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

Exercise price	Number outstanding (thousands)	Exercisable (thousands)	Weighted average remaining life
$0.15	50	50	0.3 years
$1.00	25	25	0.3 years
$2.25	4,301	4,299	1.6 years
$2.50	571	426	3.5 years
$3.00	564	564	0.3 years
$3.10	463	231	4.4 years
$8.11	25	25	0.3 years
$9.00	67	67	1.3 years
	6,066	5,687	1.8 years

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

During the nine months ended September 30, 2020, the Company issued 386,700 (2019 – 559,700) RSUs and 1,057,300 (2019 – 897,400) PSUs to employees, directors and contractors of the Company. The RSUs and PSUs granted vest all at once on the third anniversary date. The number of PSUs that ultimately vest is subject to the Company satisfying certain performance criteria within a target range set by the Company's Board of Directors. A multiplier (ranging from 0.5 to 2.0) will be applied to any vested PSUs to the extent such performance criteria are satisfied. The performance factor for the PSUs granted in the period was assumed to be 1.0 on the grant date.

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

(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 nine months ended September 30, 2020

(thousands)	RSUs	PSUs
Balance – beginning of period	1,853	3,047
Granted	387	1,057
Forfeited	(54)	(70)
Vested and settled	(699)	(1,088)
Balance – end of period	1,487	2,946

During the nine months ended September 30, 2020, 699,190 RSUs and 1,087,950 PSUs were settled which resulted in the issuance of 718,329 shares and $8,232 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 September 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 $2.40 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 September 30, 2020, $1,493 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 $1,052 (December 31, 2019 – $2,820) were classified as non-current.

As at September 30, 2020 using the same assumptions for share units that vest and are equity-settled, the Company estimated that it would pay $1,645 in tax withholdings, of which $910 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):

	Nine months ended September 30, 2020
Balance – beginning of period	67,484
Share-based compensation	2,070
Share units settled	(2,011)
Balance – end of period	67,543

(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 September 30, 2020	Nine months ended September 30, 2020
Weighted average common shares outstanding	132,635	132,403
Effect of dilutive securities	1,546	1,444
Weighted average common shares outstanding, diluted	134,181	133,847

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 nine months ended September 30, 2020, the Company's net income per share of $0.11 and $0.07, respectively, did not differ from diluted earnings per share. For the three and nine months ended September 30, 2019, the Company's net income per share was $0.11 and $0.04, respectfully, and did not differ from diluted earnings 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:

	Nine months ended September 30, 2020
Balance – beginning of period	67,468
Implied interest benefit	4,863
Revenue – deferred consideration	(2,178)
Balance – end of period	70,153
Less: current portion of deferred consideration	(1,156)
Deferred consideration	68,997

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

During the nine months ended September 30, 2020, the Company recognized $2,178 (2019 – $2,045) of revenue related to the deferred consideration.

(Unaudited, expressed in thousands of Canadian dollars)

11. Lease Liabilities

	Nine months ended September 30, 2020
Balance – beginning of period	1,021
Interest expense – lease liabilities (note 13)	67
Lease term extensions	275
Lease payments	(484)
Balance – end of period	879
Less: current portion of lease liabilities	(588)
Long term portion of lease liabilities	291

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 nine months ended September 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 September 30, 2020
Year 1	647
Year 2	288
Year 3	16
Total	951

(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 net 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Blended bitumen sales	103,835	149,702	253,875	412,619
Diluent sales	819	9,468	3,158	13,918
Petroleum sales	104,654	159,170	257,033	426,537
Blended bitumen purchases	3,449	13,707	9,437	14,983
Diluent purchases	819	9,468	3,158	13,918
Product purchases	4,268	23,175	12,595	28,901

13. Net Finance Costs

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest expense and fees – long-term debt	3,966	7,596	14,091	20,923
Amortization and derecognition of deferred transaction costs (note 7)	168	185	557	3,333
Interest income	(186)	(440)	(932)	(1,110)
Interest expense – deferred consideration (note 10)	1,644	1,562	4,863	4,624
Interest expense – lease liabilities (note 11)	23	26	67	73
Realized foreign exchange loss (gain)	95	(116)	(2,381)	275
Net finance costs	5,710	8,813	16,265	28,118

(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 September 30, 2020.

	Total	2020	2021	2022	2023+
Contracts and purchase orders (1)	2,502	768	1,613	69	52
Transportation agreements (2)	61,273	3,328	16,813	10,858	30,274
Outstanding share units (3)	4,855	18	1,202	1,520	2,115
Interest and fees on term loan (4)	27,531	3,836	15,072	8,623	—
Repayment of term loan (4)	174,324	—	—	174,324	—
Total	270,485	7,950	34,700	195,394	32,441

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 September 30, 2020.

15. Supplemental Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Changes in non-cash operating working capital				
Accounts receivable	7,324	(5,021)	5,461	(20,661)
Prepaid expenses and other assets	27	(739)	3	5
Accounts payable and accrued liabilities	(8,735)	1,648	(6,558)	8,367
	(1,384)	(4,112)	(1,094)	(12,289)
Changes in non-cash investing working capital				
Accounts receivable	—	46	—	592
Accounts payable and accrued liabilities	484	(736)	(579)	(836)
	484	(690)	(579)	(244)

Supplemental cash flow information				
Cash interest earned	174	253	848	929
Cash interest paid	3,989	5,494	14,158	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	(55,419)	(416)
Non-cash changes:		
Unrealized foreign exchange loss	7,665	—
Amortization of debt issue costs	557	—
Lease term adjustments	—	275
Balance – September 30, 2020	174,324	879

16. Subsequent Event

On November 4, 2020, WEF Osum Acquisition Corp., a company wholly owned by Waterous Energy Fund ("WEF"), the current owner of approximately 45% of the outstanding common shares of Osum, commenced an unsolicited formal take-over bid to acquire up to a maximum of 52,500,000 additional common shares of the Company, representing approximately 40% of Osum's outstanding common shares, for cash consideration of $2.40 per share. The bid is subject to a number of conditions, including that a minimum of 50% of common shares not already owned by WEF are tendered. The bid expires, unless extended, on February 24, 2021. Osum’s Board of Directors has formed a special committee of independent directors to consider the bid and the Company expects to mail a Directors’ Circular to shareholders on or before November 19, 2020.

Corporate Information

Directors

William A. Friley – Chairman
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, Strathcona 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

Steve Spence, P.Eng.
President and CEO

Victor Roskey
Chief Financial Officer

Rick K. Walsh, P.Eng.
Chief Operating Officer

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

Dr. Jen Russel-Houston, P.Geol
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