阳光油砂

SUNSHINE OILSANDS LTD.

SUNSHINE OILSANDS LTD.

陽光油砂有限公司*

(a corporation incorporated under the Business Corporations Act of the Province of Alberta, Canada with limited liability)

(HKEX: 2012)

2016 INTERIM REPORT

SUNSHINE OILSANDS LTD.

MESSAGE TO SHAREHOLDERS

During the three months ended June 30, 2016, the Corporation made progress in the following areas:

- Currently, all eight West Ells Phase I well pairs are on steam injection, with five well pairs converted to production mode, the remaining three well pairs are expected to be on production in the month of August;
- Although conversion from warm up to steam assisted gravity drainage (SAGD) production with down hole pump installation was delayed due to the Fort McMurray forest fire, three additional pump installations were completed by July 24, 2016; and
- Bitumen peak production, prior to the Fort McMurray forest fire, was 450 barrels per day from well pair 12 and 150 barrels per day from well pair 5.

During the first few weeks of the second quarter, preparations for installation of down hole pumps on the remaining six well pairs were substantially completed. The installation schedule was delayed by the Fort McMurray forest fire situation. Fortunately, the West Ells SAGD facility never came under direct threat from the Fort McMurray forest fires as no fire came closer than 50km to the facility. West Ells continued to operate steaming activities normally from May 3, 2016, the date when the city of Fort McMurray was evacuated, until May 16, 2016, the date the Government of Alberta issued a Mandatory Evacuation Order to all facilities using the private AOSTRA road, including Sunshine's West Ells facility. The plant was shut down in accordance with standard operating procedures and all site personnel were evacuated. Site staff returned on June 8, 2016 after the Mandatory Evacuation Order was lifted. Normal steaming operations were re-established on June 21, 2016. No health, safety, or environmental incidents or spills occurred during the evacuation or restart and the resumption of normal operations took place with no issues.

Sunshine's Capital Raising Activities

The Company entered into a forbearance agreement with all of the Noteholders of the Notes (the "Noteholders") maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the "Second Forbearance Agreement") with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine has paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US$10 million.

General mandate

Reference is made to the announcements of the Corporation dated March 16, 2016 (Hong Kong time) / March 15, 2016 (Calgary time), April 28, 2016 (Hong Kong time) / April 27, 2016 (Calgary time) and July 4, 2016 (Hong Kong time) / July 3, 2016 (Calgary time) (collectively, the "**Bright Hope Announcements**") in relation to the proposed issue of a total of 558,823,500 new Class "A" Common Voting Shares ("**Common Shares**") to Bright Hope Global Investments Limited ("**Bright Hope Global**") under the General Mandate (as defined in the Bright Hope Announcements).

On March 15, 2016, the Corporation entered into a subscription agreement with Bright Hope Global under which Bright Hope Global agreed to subscribe for a total of 558,823,500 Common Shares at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$190.0 million (approximately CDN$30.9 million) (the "**Bright Hope**

MESSAGE TO SHAREHOLDERS

Placement"). During the three months ended June 30, 2016, the Corporation issued an aggregate of 147,105,000 Common Shares under the Bright Hope Placement for aggregate gross proceeds of HK$50,015,700 (approximately CDN$8.2 million). An introduction fee of HK$1,000,314 (approximately CDN$0.2 million) has been paid in connection with the Bright Hope Placement.

The remaining 411,718,500 Common Shares subscribed for by Bright Hope Global (HK$140.0 million or CDN$23.1 million) are to be closed in one or more tranches with the last tranche closing no later than August 31, 2016. An announcement will be issued when the Corporation completes the closing of the remaining 411,718,500 Common Shares subscribed for by Bright Hope Global.

Specific mandate

Reference is made to the announcements of the Corporation dated June 1, 2015, July 28, 2015, August 21, 2015, October 1, 2015, November 2, 2015, December 6, 2015, March 2, 2016, May 3, 2016, June 3, 2016, June 23, 2016, July 21, 2016, August 1, 2016 and August 4, 2016 (all preceding dates are in Hong Kong time) and the circular of the Corporation dated June 22, 2015 (the "**Circular**"), in relation to, among other matters, the proposed issue of new Common Shares under the Specific Mandate (as defined in the Circular) and the connected transactions involving subscriptions for new Common Shares by connected persons.

During the three months ended June 30, 2016, the Corporation issued 53,333,333 Common Shares and subsequently issued 248,400,000 Common Shares subscribed by Prime Union Enterprises Limited ("**Prime Union**") under a subscription agreement between, amongst others, Prime Union and the Corporation dated May 31, 2015 (the "**Prime Union Placement**") for aggregate gross proceeds of HK$226,300,000 (approximately CDN38.0 million). Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Corporation.

On May 2, 2016, the Board of Directors of Sunshine (the "**Board**"), having taken into account the current market conditions, consented to a further extension of the closing date for the remaining Common Shares issuable under the Prime Union Placement to August 2, 2016 from May 2, 2016.

Due to a delay in obtaining the remaining regulatory and currency control approvals necessary to transfer funds out of People's Republic of China to pay for the remaining Common Shares under the Prime Union Placement prior to August 2, 2016, Prime Union contacted the Corporation and, following discussion with respect to the relevant circumstances, requested a further extension to the closing date of the Prime Union Placement. On August 3, 2016, the Corporation announced that, after deliberating on the options available to the Corporation, the circumstances surrounding the regulatory delay, Prime Union's completion of a substantial portion of the subscription agreement to date, Prime Union's stated commitment to Sunshine to complete the subscription agreement as soon as possible and the Corporation's discussions with its professional advisors the Board determined that a further extension to the closing date of the Prime Union Placement is in the best interests of the Corporation and its shareholders. The remaining 111,786,667 Common Shares (HK$83.8 million or CDN$14.1 million) subscribed for by Prime Union are to be closed in one or more tranches with the last tranche closing no later than December 1, 2016. Prime Union has advised Sunshine that it has been working diligently to obtain the regulatory approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union has also confirmed to Sunshine that it has the funds necessary to complete the subscription.

An announcement will be issued when the Corporation completes the closing of the remaining 111,786,667 Common Shares subscribed for by Prime Union.

MESSAGE TO SHAREHOLDERS

Summary of Financial Figures

As at June 30, 2016 and December 31, 2015, the Corporation notes the following selected balance sheet figures:

(Canadian $000s)		**June 30, 2016**		**December 31, 2015**
Cash	$	4,506	$	6,545
Current restricted cash and cash equivalents		-		14,389
Non-current restricted cash and cash equivalents		-		8,119
Exploration and evaluation assets		292,427		290,945
Property, plant and equipment		670,178		650,930
Total liabilities		323,300		369,083
Shareholders' equity		595,286		604,098

For the second quarter of 2016, the Corporation had a net loss of $20.7 million compared to $19.1 million for the same period in 2015, representing a net loss per share of $0.00 for the 2016 period and $0.00 for the 2015 period.

2016 Outlook

As at the date of this release, all eight West Ells Phase I well pairs are on steam injection, with five well pairs converted to production. The Corporation is fully committed to advancing its corporate initiatives and expects to operate the plant to prove the reservoir performance.

Hong Luo
Chief Executive Officer

Dr. Qi Jiang
President & Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three and six months ended June 30, 2016. The original MD&A was filed on August 11, 2016. This amended MD&A is dated August 17, 2016 and is filed to indicate on page 21 that an interim review report by the Company's independent auditor was not issued as the independent auditor was not able to complete all of their outstanding procedures prior to the release of the unaudited condensed interim consolidated financial statements. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto for the three and six month periods ended June 30, 2016 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

Forward-Looking Information

Certain statements in this MD&A are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and the Company hereby cautions investors about important factors that could cause the Company's actual results to differ materially from those projected in a forward-looking statement. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this MD&A), uncertainties and other factors some of which are beyond the Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, the Company strongly cautions investors against placing undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

All forward-looking statements in this MD&A are expressly qualified by reference to this cautionary statement.

Overview

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.4 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2015 was approximately 2.5 billion barrels, which was unchanged from the December 31, 2014 resource evaluation. The Company also has 422 million barrels of proved plus probable ("2P") reserves and 602 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2015. The Company did not conduct an evaluation of its Carbonate assets given the current commodity price and the introduction of risk factors to the contingent resources, which would deem the Carbonates to be uneconomic. With more than 1 million acres of oil sands and P&NG leases, the Company has significant commercial development potential. Phase 1 (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is on production and is ramping up to meet the designed plant capacity. The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the western hemisphere and the third largest oil resource in the world, with an estimated 166 billion barrels of recoverable resource. Canadian oil sands represent the largest single source of supply of oil imported into the United States.

The Company's focus is on evaluating and developing its oil sands assets with the first significant project targeting an initial production rate of 10,000 barrels per day at West Ells after completion of Phase 1 and Phase 2. Phase 1 is designed for 5,000 barrels per day while Phase 2 will add an additional 5,000 barrels per day.

As at June 30, 2016, the Company had invested approximately $1.2 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at June 30, 2016, the Company had $4.5 million in cash, $6.4 million in prepaid expenses and deposits.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview (Continued)

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such, there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

On September 30, 2015, the Company completed a voluntary delisting from the Toronto Stock Exchange. The Company's shares continue to be listed for trading on the Stock Exchange of Hong Kong Limited ("SEHK"), and trades under the trading symbol "2012".

Operational Update

West Ells

During the three month ended June 30, 2016, the Company made progress in the following areas:

- Currently, all eight West Ells Phase I well pairs are on steam injection, with five well pairs converted to production mode, the remaining three well pairs are expected to be on production in the month of August;
- Although conversion from warm up to SAGD production with down hole pump installation was delayed due to the Fort McMurray forest fire, three additional pump installations were completed by July 24, 2016;
- Bitumen peak production, prior to the Fort McMurray forest fire, was 450 barrels per day from well pair 12 and 150 barrels per day from well pair 5.

During the first few weeks of the second quarter, preparations for installation of down hole pumps on the remaining six well pairs were substantially completed. The installation schedule was delayed by the Fort McMurray forest fire situation. Fortunately, the West Ells SAGD facility never came under direct threat from the Fort McMurray forest fires as no fire came closer than 50km to the facility. West Ells continued to operate steaming activities normally from May 3, 2016, the date when Fort McMurray was evacuated, until May 16, 2016, the date the Government of Alberta issued a Mandatory Evacuation Order to all facilities, which use the private AOSTRA road, including Sunshine West Ells. The plant was shut down in accordance with standard operating procedures and all site personnel were evacuated. Site staff returned on June 8, 2016 after the Mandatory Evacuation Order was lifted, normal steaming operations were re-establish on June 21, 2016. No Health, Safety, Environmental incidents, or spills occurred during the evacuation or restart, and resumption of normal operations took place with no issues.

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2016. Once the Thickwood and Legend projects are sanctioned for development and construction, additional financing will need to be secured to proceed.

Muskwa and Godin Clastics Operations (Non-Operated 50% working interest)

A thermal single well pilot project application was submitted in July, 2014, and approved on January 26, 2015. During the final quarter of 2014, Muskwa cold production wells were suspended due to low oil prices.

Non-IFRS Financial Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as cash flow from operations. The MD&A also includes disclosure required under the Hong Kong Listing Rules, such as debt to asset ratio. These financial measures are not defined by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. The Company uses these non-IFRS measures to help evaluate its performance. Management uses cash flow from operations to measure the Company's ability to generate funds to finance capital expenditures and repay debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-IFRS Financial Measures (Continued)

These non-IFRS measures should not be considered as an alternative to or more meaningful than net income or net cash used in operating activities, as determined in accordance with IFRS. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The non-IFRS measure of cash flow from operations can be reconciled to net cash used in operating activities, as determined in accordance with IFRS. Cash flow used in operations is a non-GAAP measure that adjusts a GAAP measure (net cash used in operating activities) for changes in non-cash working capital (deficiency).

Operational and Financial Highlights

The following table summarizes selected financial information of the Company for the periods presented:

	For the three months ended June 30,		For the six months ended, June 30	
Financial Highlights	**2016**	**2015**	**2016**	**2015**
Other income	$ 10	$ (840)	$ 28	$ (154)
Finance costs	15,415	9,891	30,013	19,045
Net loss	20,736	19,122	23,509	49,961
Basic and diluted loss per share	0.00	0.00	0.01	0.01
Payments for exploration and evaluation assets	502	439	809	639
Payments for property, plant and equipment	6,437	38,893	15,952	88,176

For the three and six month periods ended June 30, 2016, the Company had a net loss of $20.7 million and $23.5 million compared to $19.1 million and $50.0 million in 2015, respectively. The net loss for the respective three and six month periods ended June 30, 2016 was primarily affected by finance costs of $15.4 million and $30.0 million, general administration costs of $3.5 million and $7.3 million, and a foreign exchange loss of $2.0 million and a foreign exchange gain of $14.1 million. The net loss for the respective three and six month periods ended June 30, 2015 was primarily affected by a foreign exchange gain of $3.2 million and a foreign exchange loss $13.4 million, general administration costs of $4.3 million and $9.6 million, $0.5 million and $1.0 million for share-based payment expense, finance costs of $9.9 million and $19.0 million and losses of $1.1 million and $0.7 million on the fair value adjustment on share purchase warrants and contract provision expense of $6.6 million.

	June 30, 2016	December 31, 2015
Cash and cash equivalents	$ 4,506	$ 6,545
Current restricted cash and cash equivalents	-	14,389
Working capital deficiency	311,024	286,121
Total assets	974,881	973,181
Total liabilities	379,595	369,083

At June 30, 2016, the Company had a cash balance of $4.5 million, including restricted cash, compared to $20.9 million at December 31, 2015. The decrease of $2.0 million in the cash balance (excluding restricted cash), was primarily attributed to payments of $16.0 million for property, plant and equipment, $0.8 million for exploration and evaluation assets, $4.5 million used in corporate operating activities and $22.4 million for finance activities. These amounts are offset by $6.9 million in proceeds from a loan from a shareholder, the release of $14.4 million in restricted cash to fund long-term debt interest payments, and $14.8 million in proceeds net of $0.1 million in costs from the issuance of common shares.

At June 30, 2016, the Company's working capital deficiency was $311.0 million, including the $258.7 million current portion of senior secured notes (the "Notes") and $6.9 million shareholder's loan, compared to a working capital deficiency of $286.1 million at December 31, 2015. The Notes bear interest at a rate of 10% and have a potential maturity date of August 1, 2017, if certain conditions are met by February1, 2016 as outlined below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operational and Financial Highlights (Continued)

If by February 1, 2016, the Company has not: (1) received at least US$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield maintenance premium, then the final maturity date of the Notes shall be August 1, 2016. The Company did not meet the requirements listed above by February 1, 2016, and as a result, the final maturity date of the Notes is August 1, 2016. The Company has presented the Notes as a current liability in the Condensed Interim Consolidated Statements of Financial Position as at June 30, 2016 (See subsequent events Note 22).

The Company had entered into a forbearance agreement with all of the Noteholders of the Notes (the "Noteholders") maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the "Second Forbearance Agreement") with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine had paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US$10 million.

The Company is required to pay to the holders 10% interest on the outstanding Notes on August 1, 2016, and a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At June 30, 2016, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 105.952% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is $15.5 million as at June 30, 2016 (December 31, 2015 - $6.2 million) and $9.3 million is recorded in the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for the six month period ended June 30, 2016 (year ended December 31, 2015 - $6.2 million).

The following table summarizes the Company's cash flow used in operations:

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Net loss	$ (20,736)	$ (19,122)	$ (23,509)	$ (49,961)
Finance costs	15,415	9,891	30,013	19,045
Unrealized foreign exchange loss/ (gain)	2,044	(3,160)	(14,607)	12,167
Contract provision expense	-	6,600	75	6,600
Interest income	(10)	(100)	(23)	(410)
Gain on sale of assets	-	(174)	(2)	(174)
Fair value adjustment on share purchase warrants	-	1,114	(3)	738
Depreciation	141	136	292	277
Share-based payment expense	(318)	528	(157)	954
Employee share savings plan	-	135	-	267
Cash flow used in operations	$ (3,464)	$ (4,152)	$ (7,921)	$ (10,497)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operational and Financial Highlights (Continued)

Non-IFRS measurements are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The above table reconciles the non-IFRS measurements "Cash flow used in operations" from "Net loss", the nearest IFRS measure. Cash flow used in operations is defined as net loss as reported, add back or deduct non-cash items including finance costs, share-based compensation, unrealized portion of foreign exchange adjustments, depreciation and impairment, interest income, fair value adjustment on share purchase warrants and employee share savings plan. Cash flow used in operations reconciles to "Net cash used in operating activities" from the Condensed Interim Consolidated Statements of Cash Flows after taking into account movements in non-cash working capital.

Cash flow used in operations in the three and six month periods ended June 30, 2016 totalled $3.5 million and $7.9 million compared to $4.2 million and $10.5 million for the same period in 2015. For the three month period ended June 30, 2016, the decrease of $0.7 million compared to the same period in 2015 is due to a decrease of $0.6 million in salaries, $0.2 million decrease in legal and audit. For the six month period ended June 30, 2016, the decrease in cash flow used in operations of $2.6 million is primarily due to a decrease of $1.4 million in salaries, $1.1 million decrease in other general and administrative costs, and partially offset by an increase of $0.2 million in legal and audit expenses compare to the same periods in 2015.

Summary of Quarterly Results

The following table summarizes selected unaudited financial information for the Company for the last eight quarters:

('000s except for per share amounts)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Other income	10	18	155	1,023	(840)	686	5,464	10,143
Finance costs	15,415	14,598	17,857	10,641	9,891	9,154	8,735	2,031
Net loss for the period	20,736	2,773	325,761	30,413	19,122	30,839	12,280	1,338
Loss per share	0.00	0.00	0.08	0.01	0.00	0.01	0.00	0.00
Capital investments	11,028	1,169	19,051	31,100	51,422	44,018	27,510	31,987

Results of Operations

Finance Costs

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Interest expense on senior notes	$ 6,374	$ 6,147	$ 12,614	$ 12,352
Interest expense on shareholder's loan	99	-	136	-
Amortization of financing transaction costs and discount	3,419	3,549	7,084	6,225
Redemption/yield maintenance premium	4,894	(45)	9,241	(45)
Financing related costs/(recovery)	379	(3)	428	-
Unwinding of discounts on provisions	250	243	510	513
	$ 15,415	$ 9,891	$ 30,013	$ 19,045

For the three month period ended June 30, 2016, finance costs increased by $5.5 million primarily as a result of $4.9 million of the redemption premium costs on the Notes, an increase of $0.1 million on interest expense on shareholder's loan to the company, $0.4 million on financing related costs, partially offset by a decrease of $0.1 million on amortization of financing costs on Notes, compared to the same period in 2015. Finance costs for the six month period ended June 30, 2016 increased by $11.0 million primarily as a result of $9.3 million the redemption premium on the Notes, $0.9 million of amortization of financing transaction costs on the Notes, an increase of $0.1 million on interest expense on shareholder's loan and $0.4 million on financing related cost compared to the same period in 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative Costs

	For the three months ended June 30, 2016			For the three months ended June 30, 2015		
	Total	**Capitalized**	**Expensed**	**Total**	**Capitalized**	**Expensed**
Salaries, consulting and benefits	$ 2,234	$ 626	$ 1,608	$ 3,537	$ 1,350	$ 2,187
Rent	520	176	344	573	228	345
Legal and audit	419	-	419	591	-	591
Other	1,121	22	1,099	1,188	34	1,154
	$ 4,294	$ 824	$ 3,470	$ 5,889	$ 1,612	$ 4,277

	For the six months ended June 30, 2016			For the six months ended June 30, 2015		
	Total	**Capitalized**	**Expensed**	**Total**	**Capitalized**	**Expensed**
Salaries, consulting and benefits	$ 4,944	$ 1,402	$ 3,542	$ 7,683	$ 2,746	$ 4,937
Rent	1,071	378	693	1,157	466	691
Legal and audit	1,135	-	1,135	949	-	949
Other	1,967	40	1,927	3,067	70	2,997
	$ 9,117	$ 1,820	$ 7,297	$ 12,856	$ 3,282	$ 9,574

General and administrative expense, which include salaries, consulting and benefits, rent, legal and audit, and other general administrative costs, for the three month period ended June 30, 2016 decreased by $0.8 million to $3.5 million compared to $4.3 million for the same period in 2015. The decrease is primarily a result of a decrease in salaries, consulting and benefits of $0.6 million, and legal and audit cost of $0.2 million, compared to the same period in 2015. For the six month period ended June 30, 2015, general and administrative expense decreased by $2.3 million to $7.3 million compared to $9.6 million for the same period in 2015. The decrease is primarily a result of a decrease in salaries, consulting and benefits of $1.4 million, and other general and administration cost of $1.1 million compared to the same period in 2015 and partially offset by an increase in legal and audit costs of $0.2 million.

During the three and six month periods ended June 30, 2016, the Company capitalized salaries, consulting and benefits, rent and other general administrative costs related to capital investment of $0.8 million and $1.8 million compared to $1.6 million and $3.3 million for the same period in 2015, respectively.

Contract Provision

As at June 30, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $6.8 million (December 31, 2015 - $6.6 million). The $6.8 million represents the maximum obligation required if the drilling rig is not utilized over the remaining term of the contract, which ends in the fourth quarter of 2016. At June 30, 2016, this obligation is broken into a $2.6 million payable and a $3.6 million provision (December 31, 2015 - $3.1 million payable and $3.5 million provision). For the three and six month periods ended June 30, 2016, the Company paid $0.6 million against the obligation. Based on current market conditions and low utilization rates for drilling rigs, management concluded the future benefits of the contract are not currently quantifiable to offset its obligations under the contract. In future periods, if the drilling rig is utilized the provision will be adjusted accordingly.

.

Share-based Compensation

	For the three months ended June 30, 2016			For the three months ended June 30, 2015		
	Total amount	**Capitalized portion**	**Expensed**	**Total amount**	**Capitalized portion**	**Expensed**
Share-based compensation	$ (276)	$ 42	$ (318)	$ 900	$ 372	$ 528

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share-based Compensation (Continued)

	For the six months ended June 30,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	$ (24)	$ 133	$ (157)	$ 1,589	$ 635	$ 954

Share-based compensation expense for the three and six month periods ended June 30, 2016 was $(0.3) million and $(0.2) million compared to $0.5 million and $1.0 million for the same period in 2015, respectively. The fair value of share-based payments associated with the granting of stock options is recognized by the Company in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.

For the three and six month periods ended June 30, 2016, the Company capitalized a portion of the share-based compensation expense using the same methodology as the comparable periods of 2015.

Other Income

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Interest income	$ 10	$ 100	$ 23	$ 410
Gain on sale of assets	-	174	2	174
Fair value adjustment on share purchase warrants (loss)/gain	-	(1,114)	3	(738)
	$ 10	$ (840)	$ 28	$ (154)

Other income for the three and six month periods ended June 30, 2016 increased by $0.8 million and $0.2 million respectively. The change was primarily due to the absence of any gains on sale of assets, offset by a fair value adjustment on share purchase warrants for the same periods in 2015.

Depreciation and Impairment

Depreciation cost for the three and six month periods ended June 30, 2016 remained relatively consistent with the comparable periods in 2015. Depreciation expense was $0.1 million for the three month period ended June 30, 2016 and 2015, and depreciation expense was $0.3 million for the six month period ended June 30, 2016. Since the Company is in a development stage, its oil assets are not yet ready for use and therefore, not subject to depletion and depreciation.

As at June 30, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the exploration and evaluation ("E&E") Assets or the West Ells cash generating unit ("CGU").

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and six month periods ended June 30, 2016 and 2015. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At June 30, 2016, the Company had total available tax deductions of approximately $1.4 billion, with unrecognized tax losses that expire between 2028 and 2036.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

		June 30, 2016		December 31, 2015
Working capital deficit[1, 2]	$	311,024	$	286,121
Shareholders' equity		595,286		604,098
	$	906,310	$	890,219

1. Included in working capital deficit at June 30, 2016, is restricted cash of Nil (December 31, 2015, $14.4 million). Refer to Note 4 "cash and cash equivalents" in the condensed interim consolidated financial statements for additional disclosure on restricted cash.
2. Senior secured notes are considered current as at June 30, 2016 and have been included in the working capital deficit as the conditions to extend the maturity date to August 1, 2017 were not met by February 1, 2016.

On August 8, 2014, the Company completed an offering of US$200 million Notes at an offering price of US$938.01 per US$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a potential maturity date of August 1, 2017, if certain conditions were met by February 1, 2016. Interest payments are payable semi-annually on February 1 and August 1 of each year.

If by February 1, 2016, the Company had not: (1) received at least US$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield maintenance premium, then the final maturity date of the Notes would be August 1, 2016. The Company did not meet the requirements listed above by February 1, 2016, and as a result the final maturity date of the Notes is August 1, 2016. The Company has presented the Notes as a current liability in the Condensed Interim Consolidated Statements of Financial Position as at June 30, 2016.

The Company had entered into a forbearance agreement with all of the Noteholders of the Notes (the "Noteholders") maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the "Second Forbearance Agreement") with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine had paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US$10 million.

The Company is required to pay to the holders 10% interest on the outstanding Notes on August 1, 2016, and a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At June 30, 2016, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 105.952% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is $15.5 million as at June 30, 2016 (December 31, 2015 - $6.2 million) and $9.3 million is recorded in the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for the six month period ended June 30, 2016 (year ended December 31, 2015 - $6.2 million).

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires standard reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources (Continued)

At June 30, 2016, the Company had incurred $8.8 million (US$6.8 million equivalent using the period end exchange rate) in liens during the ordinary course of business. There is a basket for permitted liens not to exceed US$5.0 million, but the Company was in excess of this US$5.0 million limit as at June 30, 2016. The Note Indenture also permits liens incurred in the ordinary course of business that are imposed by law. It is possible that the US$6.8 million in liens existing as at June 30, 2016 may be sheltered by one or both of these exceptions, but there is also a possibility that the Company is not in compliance with these exceptions as at June 30, 2016. In any event, no Event of Default (as defined in the Note Indenture) has occurred. From time to time, the Company receives liens or claims on accounts payable balances. The Company continues to work toward resolution of any liens or claims.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US$5.0 million to US$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of June 30, 2016, the Company had incurred unsecured debt for a total of US$5.3 million (CDN$6.9 million equivalent) which is considered Permitted Debt.

The Notes are translated into Canadian dollars at the period end exchange rate of $1US = 1.3009CDN.

The Company's strategy is to access sufficient capital, through equity issuances, monetization, joint ventures and the utilization of debt, in order to maintain a capital base that properly supports the objectives of maintaining financial flexibility and of sustaining future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Company's liquidity may be adversely affected if the Company's access to the capital markets is hindered as a result of financial market conditions generally, or as a result of conditions specific to the Company.

For the three and six month periods ended June 30, 2016, the Company reported a net loss of $20.7 million and $23.5 million respectively. At June 30, 2016, the Company had a working capital deficiency of $311.0 million including the $258.7 million current portion of the senior secured notes and an accumulated shareholders' deficit of $657.3 million.

The Company's trade payables total $23.8 million at June 30, 2016. Included in trade payables are $20.5 million payable that are greater than 60 days. Subsequent to June 30, 2016, the Company raised gross equity proceeds of $31.4 million.

The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access immediate additional financing. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 39% as at June 30, 2016 and 38% as at December 31, 2015, respectively.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which is denominated in US dollars.

For the three and six month periods ended June 30, 2016, the Company had a foreign exchange loss of $2.0 million and a gain of $14.1 million compared to a $3.2 million gain and $13.4 million loss in the same period in 2015 respectively. The decrease in foreign exchange for three month periods ended June 30, 2016, was primarily due to a decrease of $5.7 million unrealized loss on translation of the US denominated senior secured notes offset by $0.6 million unrealized loss on US denominated cash balances. The $27.4 million of increase in foreign exchange gain for six month periods ended June 30, 2016, was primarily due to $31.0 million increase in unrealized gain on translation of the US denominated senior secured notes, and partially offset by $4.4 million decrease in unrealized gain on US denominated cash balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources (Continued)

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the three and six month periods ended June 30, 2016. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at June 30, 2016 would have been impacted by $Nil . At June 30, 2016, the Company held US $Nil of restricted cash and US$0.1 million or $0.2 million of cash, using the June 30, 2016 exchange rate of 1.3009, as cash, restricted cash and cash equivalents in the Company's US bank account.

The Company also owes US$200.0 million or $258.7 million in Notes using the exchange rate of 1.3009 at June 30, 2016. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, the carrying value of the current portion of the long-term debt at June 30, 2016, would have been impacted by approximately $2.5 million.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2016 would have been impacted by HK$0.1 million. At June 30, 2016, the Company held approximately HK$11.1 million or $1.8 million using the June 30, 2016 exchange rate of 5.9645, as cash in the Company's HK$ bank account.

The Company had $5.1 million deposit with the Alberta Energy Regulator to achieve compliance with the License Liability Program managed by the regulatory authority. When the accumulative bitumen production from West Ells surpasses 7,800 cubic meters, the Company will apply to have the entire deposit returned.

Cash Flows Summary

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Cash provided (used) in operating activities	$ 1,568	$ (3,830)	$ (4,488)	$ (9,361)
Cash provided (used) in investing activities	(10,454)	(50,316)	2,217	(84,949)
Cash provided (used) by financing activities	11,970	224	333	(10,862)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(138)	(758)	(101)	4,254
Net (decrease) / increase in cash	2,946	(54,680)	(2,039)	(100,918)
Cash and cash equivalents, beginning of period	1,560	89,859	6,545	136,097
Cash and cash equivalents, end of period	$ 4,506	$ 35,179	$ 4,506	$ 35,179

Operating Activities

Net cash provided (used) for operating activities for the three and six month periods ended June 30, 2016 was $1.6 million and $(4.5) million compared to cash used of $(3.8) million and $(9.4) million for the same periods in 2015, a change of $5.4 million and $4.9 million, respectively. Net cash used for operating activities includes movement in working capital of $5.0 million and $3.4 million for the three and six month periods ended June 30, 2016 compared to movement of $0.3 million and $1.1 million for the same period in 2015.

Investing Activities

Net cash used for investing activities for the three month period ended June 30, 2016 decreased by $39.8 million to $10.5 million compared to $50.3 million for the three month ended June 30, 2015. The decrease was primarily due to payments for property, plant and equipment for the three month ended June 30, 2015 of $38.9 million, related to the West Ells project in 2015. For the six month period ended June 30, 2016 net cash used for investing activities decreased by $87.2 million to $(2.2) million compared to $85.0 million for the six month period in 2015. The decrease was primarily due to the changes of property, plant and equipment for the six month ended June 30, 2015 of $88.2 million, related to the West Ells project in 2015, partially offset by a change in restricted cash of $4.8 million due to the first interest payment on the Notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financing Activities

Net cash generated for financing activities for the three month periods ended June 30, 2016 totalled $12.0 million, which consisted of proceeds from issue of common shares of $14.7 million, proceeds from shareholder's loan of $1.2 million, partially offset by finance costs of $11.7 million. Financing activities for the six month periods ended June 30, 2016 generated $0.3 million, which consisted of proceeds from issue of common shares of $14.7 million, proceeds from shareholder's loan of $6.9 million, partially offset by finance costs of $22.4 million.

Commitments and Contingencies

Information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. As at June 30, 2016, the Company's estimated commitments are as follows:

		Total	2016	2017	2018	2019	Thereafter
Repayment of long-term debt[1]	$	260,180	260,180	-	-	-	-
Interest payments on long-term debt[2]		13,009	13,009	-	-	-	-
Redemption premium[3]		18,988	18,988	-	-	-	-
Shareholder loan		6,941	6,941	-	-	-	-
Drilling, other equipment and contracts		6,646	6,340	224	82	-	-
Lease rentals[4]		8,793	695	1,250	1,250	1,243	4,355
Office leases		7,634	1,516	2,893	2,580	645	-
	$	322,191	307,669	4,367	3,912	1,888	4,355

1. Principal amount of Notes based on the period end exchange rate of $1US = 1.3009 CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not been satisfied.
2. Based on 10% per annum and a maturity date of August 1, 2016, at the period end exchange rate of $1US = 1.3009 CDN.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2016. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2016. Using the period end exchange rate of $1US=1.3009 CDN this premium amounts to $18,988. At June 30, 2016, the Company had the option to redeem the Notes at 5.952% of the aggregate principal amount of the Notes outstanding which amounts to $15,486 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2016 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require Sunshine to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the share subscription agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the consolidated financial statements for the three and six month periods ended June 30, 2016 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated. In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

Transactions with Related Parties

Balances and transactions between the Company and its subsidiaries, who are related parties, have been eliminated on consolidation.

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13.1), and he has also loaned the Company funds on an unsecured basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Transactions with Related Parties (Continued)

On January 19, 2016 the Company signed an unsecured loan agreement (the “Loan”) with Tai Feng Investments Limited (“Tai Feng”). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company’s Executive Chairman. The Loan is considered Permitted Debt under the Company’s Notes as long as it does not exceed US$5.0 million. The Loan has an interest rate of 6.0% per annum, can be drawn up to HK$38.0 million and requires repayment in full within six months from the date of the receipt of the Loan. The first loan balance at June 30, 2016 is HK$38.0 million (approximately $6.37 million).

A second loan agreement (“Second Loan”) was signed effective April 14, 2016 with Tai Feng. This Second Loan has the same interest rate and repayment terms as the Loan, except it requires repayment in full within three months from the date of the receipt of the Loan. The Second Loan balance at June 30, 2016 is HK$3.4 million (approximately $0.57 million).

Off-balance Sheet Arrangements

The Company has certain lease agreements which are reflected in the table above under the heading “Commitments and contingences”. No asset or liability value was assigned to these agreements on the Company’s balance sheet. As at June 30, 2016, the Company did not have any other off-balance sheet arrangements.

Subsequent Events

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common Shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares (the "Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon the Partial Closing, the Company has received total gross proceeds of HK$72,300,000 (approximately CDN$12.2 million). The HK$72.3 million was comprised of HK$30.0 million in cash and HK$42.3 million in repayment of the Loan and the Second Loan plus interest due at July 19, 2016.

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares (the "Second Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon the Second Partial Closing, the Company has received total gross proceeds of HK$114,000,000 (approximately CDN$19.2 million). The remaining 111,786,667 Common Shares (HK$83,840,000 or CDN$14.09 million) subscribed for by Prime Union will be closed in one or more tranches.

On August 3, 2016, the Company announced an extension past August 2, 2016, for the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union had advised Sunshine that it has been working diligently to obtain the regulatory approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union had also confirmed to Sunshine that it has the funds necessary to complete the subscription.

The Company had entered into a forbearance agreement with all of the Noteholders of the Notes (the “Noteholders”) maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the “Second Forbearance Agreement”) with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. Pursuant to the Second Forbearance Agreement, Sunshine has paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US$10 million.

Changes in Accounting Policies

For the three and six month periods ended June 30, 2016, there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for the year ended December 31, 2015.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going Concern

These condensed interim consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

Joint Control

Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the capital and operating activities of the projects it undertakes with partners and when the decisions in relation to those activities require unanimous consent.

Oil and Gas Reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Reserve estimates are based on, among other things, forecasts of production, prices, cost estimates and economic conditions.

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found proved and probable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production forecasts, prices and other economic conditions;
- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and
- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Company's development and production assets are determined using proved plus probable reserves.

Independent qualified reserve evaluators prepare reserve estimates for each property at least annually and issue a report thereon. The reserve estimates are reviewed by the Company's engineers and operational management familiar with the property. Judgment is used in order to determine if a project classified as E&E is technically feasible and commercially viable and should be transferred from E&E to property, plant and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Impairment of Non-financial Assets

The recoverable amounts of cash generating units ("CGU") and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Recoverability of Exploration and Evaluation costs

E&E assets are capitalized as exploration and evaluation assets by CGU and are assessed for impairment when circumstances suggest that the carrying amount may exceed recoverable value. This assessment involves judgment as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues based on forecasted oil and gas prices; (iii) future development costs and production expenses; (iv) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value; and (v) potential value to future E&E activities of any geological and geophysical data acquired.

Decommissioning Costs

A provision is required to be recognised for the future retirement obligations associated with the Company's assets. The decommissioning provision is based on estimated costs, taking into account the anticipated method and extent of restoration consistent with legal, regulatory and construction requirements, technological advances and the possible use of the site. Since these estimates are specific to the sites involved, there are many individual assumptions underlying the amount provided. These individual assumptions can be subject to change based on actual experience and a change in one or more of these assumptions could result in a materially different amount.

Share Purchase Warrants

The Company recognises a liability for share purchase warrants with an exercise price in a currency other than the functional currency of the Company, which is remeasured at each reporting date. The initial recognition and subsequent remeasurement of the share purchase warrants is based on the estimated fair value of each share purchase at its grant date and each reporting date, the estimation of which requires management to make assumptions about future volatility of the Company's stock price, future interest rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

Share-based Compensation

The Company recognises compensation expense on options. Compensation expense is based on the estimated fair value of each option and stock appreciation right at its grant date, the estimation of which requires management to make assumptions about future volatility of the Company's stock price, future interest rates, future forfeiture rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

Fair Value Measurement

The estimated fair value of financial instruments is reliant upon a number of estimated variables including foreign exchange rates and interest rates, volatility curves and risk of non-performance. A change in any one of these factors could result in a change to the overall estimated valuation of the instrument.

Deferred Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2015, which is available at www.sedar.com. The 2015 annual report of the Company is available at the Company's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Company's 2015 Annual Information Form is available at www.sedar.com.

Disclosure Controls and Procedures

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Qiping Men, Executive Director of the Board and Chief Financial Officer, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Internal Controls over Financial Reporting

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Qiping Men, Executive Director of the Board and Chief Financial Officer, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Company used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

No material changes in the Company's ICFR were identified during the three and six month periods ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in this announcement is as follows:

Code of Corporate Governance Practice (the "Code")

The Company is committed to maintaining high standards of corporate governance. The Company recognizes that corporate governance practices are fundamental to the effective and transparent operation of a company and its ability to protect the rights of its shareholders and enhance shareholder value.

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Hong Kong Listing Rules"), has been complied with following its public listing, save that the Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Compliance with the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code")

The Company confirms that it has adopted the Model Code, as set out in Appendix 10 to the Hong Kong Listing Rules, following its public listing. Having made specific enquiry with all directors, the directors have confirmed and compiled with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

On March 15, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with Bright Hope Global Investments Limited ("Bright Hope Global") under which Bright Hope Global agreed to subscribe for a total of 558,823,500 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$189,999,990 (approximately CDN$30,902,347) (the "Placement").

Completion of the Placement is subject to the fulfillment (or waiver) of certain regulatory conditions, which have been met.

Completion of the Placement would have to take place on or before May 14, 2016 (or such other date as the Company may choose) (the "Closing Date"). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Company takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Company and the Subscriber under the Subscription Agreement shall immediately and unconditionally cease and be null and void. There can be no assurance that the Placement will close as described.

On April 27, 2016, the Company completed the closing of 88,234,000 Common Shares (the "Partial Closing") at a price of HK$0.34 per Common Share (approximately CDN$0.055 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$29,999,560 (approximately CDN$4.9 million). In addition, an introduction fee of HK$599,991 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than May 14, 2016.

On May 16, 2016, the Company announced an extension of the remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares (the "Partial Closing") at a price of HK$0.34 per Common Share (approximately CDN$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$20,016,140 (approximately CDN$3.3 million). In addition, an introduction fee of HK$400,323 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 411,718,500 Common Shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Purchase, Sale or Redemption of Sunshine's Listed Securities (Continued)

Specific mandate

On May 2, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Common Shares (HK$310,140,000 or approximately CDN$53.5 million) subscribed by Prime Union (original subscription agreement was May 31, 2015) to August 2,2016 from May 2, 2016. The remaining subscribed Common Shares can be closed in one or more tranches with the last tranche closing no later than August 2, 2016. Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares (the "Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.68 million). The remaining400,186,667 Common Shares (HK$300,140,000 or CDN $50,520,115) subscribed for by Prime Union will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares (the "Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.124 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$30,000,000 (approximately CDN$4.96 million). The remaining 360,186,667 Common Shares (HK$270,140,000 or approximately CDN $44,627,635) subscribed for by Prime Union which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common Shares (HK$139,984,290 or CDN$23.1 million at current exchange rates) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares (the "Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share at current exchange rates). Upon the Partial Closing, the Company has received total gross proceeds of HK$72,300,000 (approximately CDN$12.16 million). Placement expenses are estimated to be approximately HK$100,000 (approximately CDN$0.02 million). The remaining 263,786,667 Common Shares (HK$197,840,000 or CDN$33.3 million at current exchange rates) subscribed for by Prime Union will be closed in one or more remaining tranches, with the last tranche closing no later than Aug 2, 2016.

On August 3, 2016, the Company announced an extension of the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union had advised Sunshine that it has been working diligently to obtain the Regulatory Approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union had also confirmed to Sunshine that it has the funds necessary to complete the subscription.

Post-IPO stock option plan

The Company did not have any stock options exercised for the six month period ended June 30, 2016. During the year ended December 31, 2015, the Company issued 1,075,166 Class "A" common shares, from the exercise of 1,075,166 stock options at a weighted average price of $0.10 per share for cash proceeds of $0.1 million.

Shares Outstanding

As at August 11, 2016 and August 17, 2016, the Company had 4,679,102,437 Common Shares issued and outstanding,

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Financial Statements and Notes

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiaries, for the three and six month periods ended June 30, 2016, together with comparative figures for the appropriate periods in 2015 as follows:

Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ 4,506	$ 6,545
Restricted cash and cash equivalents	-	14,389
Trade and other receivables	1,418	2,253
Prepaid expenses and deposits	6,352	8,119
	12,276	31,306
Non-current assets		
Exploration and evaluation	292,427	290,945
Property, plant and equipment	670,178	650,930
	962,605	941,875
	$ 974,881	$ 973,181
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and accrued liabilities	$ 54,096	$ 47,611
Provisions	3,566	3,492
Share purchase warrants	-	3
Current portion of long-term debt	258,697	266,321
Shareholder loan	6,941	-
	323,300	317,427
Non-current liabilities		
Provisions	56,295	51,656
	379,595	369,083
Net current assets	(311,024)	(286,121)
Total assets less current liabilities	651,581	655,754
Shareholders' Equity		
Share capital	1,189,708	1,174,987
Reserve for share-based compensation	62,886	62,910
Deficit	(657,308)	(633,799)
	595,286	604,098
	$ 974,881	$ 973,181

MANAGEMENT'S DISCUSSION AND ANALYSIS

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in thousands of Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2016	**2015**	**2016**	**2015**
Other income				
Interest income	$ 10	$ 100	$ 23	$ 410
Gain on sale of assets	-	174	2	174
Fair value adjustment on share purchase warrants gains / (losses)	-	(1,114)	3	(738)
	10	(840)	28	(154)
Expenses				
Salaries, consulting and benefits	1,608	2,187	3,542	4,937
Rent	344	345	693	691
Legal and audit	419	591	1,135	949
Depreciation	141	136	292	277
Share-based payments	(318)	528	(157)	954
Finance costs	15,415	9,891	30,013	19,045
Foreign exchange (gains)/losses	2,038	(3,150)	(14,050)	13,357
Contract provision expense	-	6,600	142	6,600
Other	1,099	1,154	1,927	2,997
	$ 20,746	$ 18,282	$ 23,537	$ 49,807
Loss before income taxes	20,736	19,122	23,509	49,961
Income taxes	-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company	$ 20,736	$ 19,122	$ 23,509	$ 49,961
Basic and diluted loss per share	$ 0.00	$ 0.00	$ 0.01	$ 0.01

Notes

1. Basis of Preparation

These condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The condensed interim consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Hong Kong Listing Rules.

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, measured at fair value. The consolidated financial statements are presented in Canadian Dollars ("$"), which is the functional currency of the Company.

The condensed interim consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiary, Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong"). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements when control is achieved and until control is lost. All inter-company transactions, balances, revenues and expenses are eliminated in full on consolidation. On July 14, 2015, Boxian was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. No activity has yet occurred in Boxian as at the date of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. Segment Information

The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

3. Trade Receivables

The Company's trade and accruals and other receivables mainly arise from reimbursable expenditures and goods and services tax receivables due from government taxation authorities. These are summarized as follows:

	June 30, 2016	December 31, 2015
Trade	$ 1,357	$ 1,184
Accruals and other receivables	5	56
Goods and services taxes receivable	56	1,013
	$ 1,418	$ 2,253

The Company allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables at the end of the reporting period:

	June 30, 2016	December 31, 2015
0 - 30 days	$ 29	$ 66
31 - 60 days	125	(2)
61 - 90 days	8	2
>90 days	1,195	1,118
	$ 1,357	$ 1,184

As at June 30, 2016, included in the Company's trade receivables were debtors with an aggregate carrying amount of $1.4 million (December 31, 2015 - $1.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances. Management believes the past due amounts will be collected.

4. Trade Payables

Trade payables and accrued liabilities mainly represent payables to subcontractors for development, engineering, procurement and construction services. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting period:

	June 30, 2016	December 31, 2015
Trade		
0 - 30 days	$ 2,185	$ 11,093
31 - 60 days	1,163	6,284
61 - 90 days	662	3,131
> 91 days	19,831	2,210
	23,841	22,718
Accrued liabilities	30,255	24,893
	$ 54,096	$ 47,611

5. Dividends

The Company has not declared or paid any dividends in respect of the three and six month periods ended June 30, 2016 (three and six month periods ended June 30, 2015 - $Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

6. Income Taxes

The components of the net deferred income tax asset are as follows:

		June 30, 2016		December 31, 2015
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(110,792)	$	(94,478)
Decommissioning liabilities		15,200		13,947
Share issue costs		4,306		6,790
Non-capital losses		219,771		194,902
Deferred tax benefits not recognized		(128,485)		(121,161)
	$	-	$	-

The Company's non-capital losses of $813,968 (December 31, 2015 - $721,858), expire between 2028 and 2036.

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 27.0%. The Company had no assessable profit in Canada for the three and six month periods ended June 30, 2016. The Company files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. The estimated tax deductions available to the Company in Canada are approximately $1.4 billion. The Company's tax losses will begin expiring in 2028.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three and six month periods ended June 30, 2016.

Review of interim results

The unaudited condensed interim consolidated financial statements for the Company for the three and six month periods ended June 30, 2016, were reviewed by the Audit Committee of the Company and approved by the Board. The interim review report was not issued as the independent auditor was not able to complete all of their outstanding procedures prior to the release of the unaudited condensed interim consolidated financial statements.

Publication of Information

This annual results announcement is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the Company's website at www.sunshineoilsands.com.

This announcement is prepared in both English and Chinese and in the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.

SUNSHINE OILSANDS LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Notes	June 30, 2016	December 31, 2015
Assets			
Current assets			
Cash	4	$ 4,506	$ 6,545
Restricted cash and cash equivalents	4	-	14,389
Trade and other receivables	5	1,418	2,253
Prepaid expenses and deposits	6	6,352	8,119
		12,276	31,306
Non-current assets			
Exploration and evaluation	7	292,427	290,945
Property, plant and equipment	8	670,178	650,930
		962,605	941,875
		$ 974,881	$ 973,181
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and accrued liabilities	9	$ 54,096	$ 47,611
Provisions	11	3,566	3,492
Share purchase warrants	13.2	-	3
Current portion of long-term debt	10	258,697	266,321
Shareholder loan	18.1	6,941	-
		323,300	317,427
Non-current liabilities			
Provisions	11	56,295	51,656
		379,595	369,083
Shareholders' Equity			
Share capital	13.1	1,189,708	1,174,987
Reserve for share-based compensation		62,886	62,910
Deficit		(657,308)	(633,799)
		595,286	604,098
		$ 974,881	$ 973,181

Going concern (Note 2)
Commitments and contingencies (Note 20)
Subsequent events (Note 22)

Approved by the Board

"Gerry Stevenson"
Director

"Kwok Ping Sun"
Executive Chairman

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in thousands of Canadian dollars, except for per share amounts)
(Unaudited)

	Notes	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Other income					
Interest income		$ 10	$ 100	$ 23	$ 410
Gain on sale of assets		-	174	2	174
Fair value adjustment on share purchase warrants (losses)/gains	13.2	-	(1,114)	3	(738)
		10	(840)	28	(154)
Expenses					
Salaries, consulting and benefits		1,608	2,187	3,542	4,937
Rent		344	345	693	691
Legal and audit		419	591	1,135	949
Depreciation	8	141	136	292	277
Share-based payments	14.2	(318)	528	(157)	954
Finance costs	15	15,415	9,891	30,013	19,045
Foreign exchange (gains)/losses	17.6	2,038	(3,150)	(14,050)	13,357
Contract provision expense	11.2	-	6,600	142	6,600
Other		1,099	1,154	1,927	2,997
		$ 20,746	$ 18,282	$ 23,537	$ 49,807
Loss before income taxes		20,736	19,122	23,509	49,961
Income taxes	12	-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company		$ 20,736	$ 19,122	$ 23,509	$ 49,961
Basic and diluted loss per share	16	$ 0.00	$ 0.00	$ 0.01	$ 0.01

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)
(Unaudited)

	Notes	Reserve for share based compensation	Share capital	Deficit	Total
Balance, December 31, 2015		$ 62,910	$ 1,174,987	$ (633,799)	$ 604,098
Net loss and comprehensive loss for the period		-	-	(23,509)	(23,509)
Issue of common shares	13.1	-	14,818	-	14,818
Recovery of share-based compensation	14.2	(24)	-	-	(24)
Share Issue costs, net of deferred tax($Nil)	13.1	-	(97)	-	(97)
Balance, June 30, 2016		$ 62,886	$ 1,189,708	$ (657,308)	$ 595,286
Balance, December 31, 2014		$ 60,658	$ 1,139,022	$ (227,664)	$ 972,016
Net loss and comprehensive loss for the period		-	-	(49,961)	(49,961)
Issue of shares under employee share savings plan	13.1	-	535	-	535
Recognition of share-based payments	14.2	1,589	-	-	1,589
Issue of shares upon exercise of share options	13.1	-	40	-	40
Reserve transferred on exercise of share options		(20)	20	-	-
Balance, June 30, 2015		$ 62,227	$ 1,139,617	$ (277,625)	$ 924,219

See accompanying notes to the condensed interim consolidated financial statements.

SUNSHINE OILSANDS LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Notes	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Cash flows from operating activities					
Net loss		$ (20,736)	$ (19,122)	$ (23,509)	$ (49,961)
Finance costs	15	15,415	9,891	30,013	19,045
Unrealized foreign exchange losses/(gains)	17.6	2,044	(3,160)	(14,607)	12,167
Contract provision expense	11.2	-	6,600	75	6,600
Interest income		(10)	(100)	(23)	(410)
Gain on sale of assets		-	(174)	(2)	(174)
Fair value adjustment on share purchase warrants	13.2	-	1,114	(3)	738
Depreciation	8	141	136	292	277
Share-based payment expense	14.2	(318)	528	(157)	954
Employee share savings plan		-	135	-	267
Movement in non-cash working capital	21	5,032	322	3,433	1,136
Net cash provided by (used in) operating activities		1,568	(3,830)	(4,488)	(9,361)
Cash flows from investing activities					
Interest received		10	100	23	410
Payments for exploration and evaluation assets	7	(502)	(439)	(809)	(639)
Proceeds from sale of assets	8	-	447	2	447
Payments for property, plant and equipment	8	(6,437)	(38,893)	(15,952)	(88,176)
Release of restricted cash to fund long-term debt interest payments	4	564	559	14,389	9,634
Movement in non-cash working capital	21	(4,089)	(12,090)	4,564	(6,625)
Net cash provided by (used in) investing activities		(10,454)	(50,316)	2,217	(84,949)
Cash flows from financing activities					
Proceeds from issue of common shares	13.1	14,818	176	14,818	308
Payment for share issue costs	13.1	(97)	-	(97)	-
Payment for finance costs	15	(11,746)	(6,099)	(22,419)	(12,307)
Shareholder's loan received	18.1	1,150	-	6,941	-
Movement in non-cash working capital	21	7,845	6,147	1,090	1,137
Net cash provided by (used in) financing activities		11,970	224	333	(10,862)
Effect of exchange rate changes on cash held in foreign currency	17.6	(138)	(758)	(101)	4,254
Net (decrease) / increase in cash		2,946	(54,680)	(2,039)	(100,918)
Cash and cash equivalents, beginning of period		1,560	89,859	6,545	136,097
Cash and cash equivalents , end of period		$ 4,506	$ 35,179	$ 4,506	$ 35,179

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Condensed Interim Consolidated Financial Statements
For the three and six month period ended June 30, 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)
(Unaudited)

1. Company information

Sunshine Oilsands Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of its principal place of business is 1020, 903 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 0P7. The Company's shares were listed on the Stock Exchange of Hong Kong Limited ("SEHK") on March 1, 2012 pursuant to an initial public offering ("IPO") and trades under the stock code symbol of "2012". On November 16, 2012, the Company completed a listing of its common shares on the Toronto Stock Exchange ("TSX") and traded under the symbol of "SUO". On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company continues to be a reporting issuer in Canada.

On May 4, 2012, Sunshine Oilsands (Hong Kong) Limited ("Sunshine Hong Kong") was incorporated in Hong Kong and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Sunshine Hong Kong is Unit 8504A, 85/F, International Commerce Centre 1 Austin Road West, Kowloon.

On July 14, 2015, Boxian Investments Limited ("Boxian") was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Boxian is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As of June 30, 2016, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

The Company is engaged in the evaluation and the development of oil properties for the future production of bitumen in the Athabasca oilsands region in Alberta, Canada. The Company is a development stage company. The continued existence of the Company is dependent on its ability to maintain capital funding for further development and to meet obligations. In the event that such capital is not available to the Company, it will be necessary to prioritize activities, which may result in delaying and potentially losing business opportunities and cause potential impairment to recorded assets.

2. Basis of preparation

Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the six month period ended June 30, 2016, the Company reported a net loss of $23.5 million. At June 30, 2016, the Company had negative working capital of $311.0 million including the $258.7 million current portion of the senior secured notes (Note 10) and an accumulated shareholders' deficit of $657.3 million. The Company's trade payables total $23.8 million at June 30, 2016. Included in trade payables are $20.5 million of payables that are greater than 60 days. Subsequent to June 30, 2016, the Company raised gross equity proceeds of $31.4 million and entered into a forbearance agreement (Note 22).

The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2.1 Statement of compliance

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 17.3). The financial statements have been prepared on the same basis and using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended December 31, 2015. The condensed interim consolidated financial statements are presented in Canadian Dollars ("$"), which is the functional currency of the Company.

3. Changes in accounting policies

For the three and six month period ended June 30, 2016 there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for the year ended December 31, 2015.

4. Cash and cash equivalents

		June 30, 2016		December 31, 2015
Current asset				
Cash[1]	$	4,506	$	6,545
Current restricted cash and cash equivalents[2]		-		14,389
	$	4,506	$	20,934

1. The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates of between 0.1% and 1.55%.
2. The US$200 million senior secured notes issued in August 2014 required US$30 million of proceeds to be held in a restricted escrow account to cover the first three semi-annual interest payments on the senior secured notes. On February 1, 2016, the third interest payment of US$10 million was paid from the restricted escrow account. There is Nil remaining in the restricted escrow account.

5. Trade and other receivables

		June 30, 2016		December 31, 2015
Trade	$	1,357	$	1,184
Accruals and other receivables		5		56
Goods and Services Taxes receivable		56		1,013
	$	1,418	$	2,253

As at June 30, 2016, included in the Company's trade receivables was an aggregate carrying amount of $1.4 million (December 31, 2015 - $1.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances.

6. Prepaid expenses and deposits

		June 30, 2016		December 31, 2015
Prepaid expenses	$	500	$	518
Deposits		5,852		7,601
	$	6,352	$	8,119

As at June 30, 2016, the deposits include $5.1 million held with the Alberta Energy Regulator for the Licensee Liability Rating Program. The remaining deposits include ordinary business deposits of $0.8 million.

7. Exploration and evaluation

Balance, December 31, 2014	$	379,403
Capital expenditures		1,375
Non-cash expenditures[1]		167
Impairment		(90,000)
Balance, December 31, 2015	$	290,945
Capital expenditures		809
Non-cash expenditures[1]		673
Balance, June 30, 2016	$	292,427

1. Non-cash expenditures include capitalized share-based compensation and decommissioning obligations.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Exploration and evaluation (Continued)

The Company is a development stage entity and, as a result, no depletion expense has been recorded for exploration and evaluation ("E&E") assets for any period. As at June 30, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the E&E Assets.

Exploration and evaluation costs (net of impairment) are comprised of the following:

		June 30, 2016		December 31, 2015
Intangibles	$	181,829	$	182,278
Tangibles		19,584		18,683
Land and lease costs		91,014		89,984
	$	292,427	$	290,945

8. Property, plant and equipment

		Crude oil assets		Corporate assets		Total
Cost						
Balance, December 31, 2014	$	699,948	$	3,748	$	703,696
Capital expenditures		152,207		1,160		153,367
Disposal of asset		-		(446)		(446)
Non-cash expenditures[1]		1,693		-		1,693
Balance, December 31, 2015	$	853,848	$	4,462	$	858,310
Capital expenditures		15,953		(1)		15,952
Non-cash expenditures[1]		3,588		-		3,588
Balance, June 30, 2016	$	873,389	$	4,461	$	877,850

1. Non-cash expenditures include capitalized share-based compensation and decommissioning obligations.

		Crude oil assets		Corporate assets		Total
Accumulated depreciation and impairment						
Balance, December 31, 2014	$	-	$	1,960	$	1,960
Disposal		-		(173)		(173)
Depreciation expense		-		593		593
Impairment		205,000		-		205,000
Balance, December 31, 2015	$	205,000	$	2,380	$	207,380
Depreciation expense		-		292		292
Balance, June 30, 2016	$	205,000	$	2,672	$	207,672
Carrying value, December 31, 2015	$	648,848	$	2,082	$	650,930
Carrying value, June 30, 2016	$	668,389	$	1,789	$	670,178

At June 30, 2016, the crude oil assets included in the above property, plant and equipment were not subject to depletion since they are not ready for use in the manner intended by management. As at June 30, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the West Ells CGU.

During the six month period ended June 30, 2016, the Company capitalized directly attributable costs including $0.1 million for share-based compensation and $1.8 million for general and administrative costs.

9. Trade and accrued liabilities

		June 30, 2016		December 31, 2015
Trade	$	23,841	$	22,718
Accrued liabilities		30,255		24,893
	$	54,096	$	47,611

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Long-term debt

		June 30, 2016		December 31, 2015
Senior secured notes (US$200,000,000)	$	260,180	$	276,800
Discount on notes		(16,129)		(17,159)
Financing transaction costs on notes		(11,846)		(11,846)
Amortization of financing transaction costs and discount		26,492		18,526
Balance, end of period	$	258,697	$	266,321

On August 8, 2014, the Company completed an offering of US$200 million senior secured notes (the “Notes”) at an offering price of US$938.01 per US$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a potential maturity date of August 1, 2017, if certain conditions are met as explained below. Interest payments are payable semi-annually on February 1 and August 1 of each year.

If by February 1, 2016, the Company had not: (1) received at least US$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes shall be August 1, 2016. The Company did not meet the requirements listed above by February 1, 2016, and as a result the final maturity date of the Notes will be August 1, 2016. The Company has presented the Notes as a current liability on the Condensed Interim Consolidated Statements of Financial Position as at June 30, 2016.

The Company entered into a forbearance agreement with all of the Noteholders of the Notes (the “Noteholders”) maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the “Second Forbearance Agreement”) with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 15, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine had paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US$10 million.

The Company is required to pay to the holders 10% interest on the outstanding Notes on August 1, 2016, and a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At June 30, 2016, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 105.952% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is $15.5 million as at June 30, 2016 (December 31, 2015 - $6.2 million) and $9.3 million is recorded in the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for the six month period ended June 30, 2016 (year ended December 31, 2015 - $6.2 million).

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires standard reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

At June 30, 2016, the Company had incurred $8.8 million (US$6.8 million equivalent using the period end exchange rate) in liens during the ordinary course of business. There is a basket for permitted liens not to exceed US$5.0 million, but the Company was in excess of this US$5.0 million limit as at June 30, 2016. The Note Indenture also permits liens incurred in the ordinary course of business that are imposed by law. It is possible that the US$6.8 million in liens existing as at June 30, 2016 may be sheltered by one or both of these exceptions, but there is also a possibility that the Company is not in compliance with these exceptions as at June 30, 2016. In any event, no Event of Default (as defined in the

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Long-term debt (Continued)

Note Indenture) has occurred. From time to time, the Company receives liens or claims on accounts payable balances. The Company continues to work toward resolution of any liens or claims.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US$5.0 million to US$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of June 30, 2016, the Company had incurred unsecured debt for a total of US$5.3 million (CDN$6.9 million equivalent) which is considered Permitted Debt.

The Notes are translated into Canadian dollars at the period end exchange rate of $1US = 1.3009CDN.

11. Provisions

		June 30, 2016		December 31, 2015
Decommissioning obligations (Note 11.1)	$	56,295	$	51,656
Contract provision (Note 11.2)		3,566		3,492
	$	59,861	$	55,148
Presented as:				
Provisions (current)	$	3,566	$	3,492
Provisions (non-current)	$	56,295	$	51,656

11.1 Decommissioning obligations

As at June 30, 2016, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $80.1 million (December 31, 2015 - $81.8 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate between 0.53% to 1.86% per annum and inflated using an inflation rate of 2.0% per annum.

		June 30, 2016		December 31, 2015
Balance, beginning of period	$	51,656	$	49,484
Effect of changes in discount rate		4,129		1,117
Unwinding of discount rate		510		1,055
	$	56,295	$	51,656
Current portion		-		-
Balance, end of period	$	56,295	$	51,656

11.2 Contract provision

As at June 30, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $6.8 million (December 31, 2015 - $6.6 million). The $6.8 million represents the maximum obligation required if the drilling rig is not utilized over the remaining term of the contract, which ends in the fourth quarter of 2016. At June 30, 2016, this obligation is broken into a $2.6 million payable and a $3.6 million provision (December 31, 2015 - $3.1 million payable and $3.5 million provision). For the three and six month period ended June 30, 2016, the Company paid $0.6 million against the obligation. Based on current market conditions and low utilization rates for drilling rigs, management concluded the future benefits of the contract are not currently quantifiable to offset its obligations under the contract. In future periods, if the drilling rig is utilized the provision will be adjusted accordingly.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Income taxes

12.1 Deferred tax balances

The components of the net deferred income tax asset are as follows:

		June 30, 2016		December 31, 2015
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(110,792)	$	(94,478)
Decommissioning liabilities		15,200		13,947
Share issue costs		4,306		6,790
Non-capital losses		219,771		194,902
Deferred tax benefits not recognized		(128,485)		(121,161)
	$	-	$	-

12.2 Tax pools

The following is a summary of the Company's estimated tax pools:

		June 30, 2016		December 31, 2015
Canadian development expense	$	38,687	$	42,888
Canadian exploration expense		230,913		230,899
Undepreciated capital cost		282,665		318,168
Non-capital losses		813,968		721,858
Share issue costs		15,949		25,149
	$	1,382,182	$	1,338,962

The Company's non-capital losses of $813,968 (December 31, 2015 - $721,858), expire between 2028 and 2036.

13. Share capital

The Company's authorized share capital is as follows:

- an unlimited number of Class "A" and Class "B" voting common shares without par value; and,
- an unlimited number of Class "C", Class "D", Class "E" and Class "F" non-voting common shares without par value; and,
- an unlimited number of Class "G" and Class "H" non-voting preferred shares.

Issued Capital

		June 30, 2016		December 31, 2015
Common shares	$	1,189,708	$	1,174,987

13.1 Common shares

	June 30, 2016		December 31, 2015	
	Number of shares	$	Number of shares	$
Balance, beginning of period	4,230,264,104	1,174,987	3,896,103,191	1,139,022
Private placements – general mandate	147,105,000	8,194	215,037,000	21,214
Private placements – specific mandate	53,333,333	6,624	111,214,210	14,073
Issue of shares under employee share savings plan	-	-	6,834,537	711
Issue of shares under share option plan	-	-	1,075,166	108
Share option reserve transferred on exercise of stock options	-	-	-	55
Share issue costs, net of deferred tax ($Nil)	-	(97)	-	(196)
Balance, end of period	4,430,702,437	1,189,708	4,230,264,104	1,174,987

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13.1 Common shares (Continued)

Common shares consist of fully paid Class “A” and Class “B” common shares, which have no par value, carry one vote per share and carry a right to dividends.

General mandate

On March 15, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with Bright Hope Global Investments Limited (“Bright Hope Global”) under which Bright Hope Global agreed to subscribe for a total of 558,823,500 Class “A” Common Voting Shares of the Company (“Common Shares”) at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$189,999,990 (approximately CDN$30,902,347) (the “Placement”).

Completion of the Placement is subject to the fulfillment (or waiver) of certain regulatory conditions, which have been met.

Completion of the Placement would have to take place on or before May 14, 2016 (or such other date as the Company may choose) (the “Closing Date”). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Company takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Company and the Subscriber under the Subscription Agreement shall immediately and unconditionally cease and be null and void. There can be no assurance that the Placement will close as described.

On April 27, 2016, the Company completed the closing of 88,234,000 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.055 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$29,999,560 (approximately CDN$4.9 million). In addition, an introduction fee of HK$599,991 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than May 14, 2016.

On May 16, 2016, the Company announced an extension of the remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$20,016,140 (approximately CDN$3.3 million). In addition, an introduction fee of HK$400,323 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 411,718,500 Common Shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

Specific mandate

On May 2, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Common Shares (HK$310,140,000 or approximately CDN$53.5 million) subscribed by Prime Union (original subscription agreement was May 31, 2015) to August 2,2016 from May 2, 2016. The remaining subscribed Common Shares can be closed in one or more tranches with the last tranche closing no later than August 2, 2016. Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13.1 Common shares (Continued)

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.68 million). The remaining 400,186,667 Common Shares (HK$300,140,000 or CDN $50.5 million) subscribed for by Prime Union will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.124 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$30,000,000 (approximately CDN$4.96 million). The remaining 360,186,667 Common Shares (HK$270,140,000 or approximately CDN $44.6 million) subscribed for by Prime Union, which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On August 3, 2016, the Company announced an extension of the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union had advised Sunshine that it has been working diligently to obtain the regulatory approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union had also confirmed to Sunshine that it has the funds necessary to complete the subscription.

Post-IPO stock option plan

The Company did not have any stock options exercised for the six month period ended June 30, 2016. During the year ended December 31, 2015, the Company issued 1,075,166 Class “A” common shares, from the exercise of 1,075,166 stock options at a weighted average price of $0.10 per share for cash proceeds of $0.1 million.

13.2 Share purchase warrants

	June 30, 2016		**December 31, 2015**	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of period	132,910,941	0.34	211,230,941	0.28
Expired	(132,910,941)	0.34	(78,320,000)	0.34
Balance, end of period	-	-	132,910,941	0.34
Exercisable, end of period	-	-	132,910,941	0.34

During the six month period ended June 30, 2016, 132,910,941 remaining share purchase warrants expired. As at June 30, 2016, the share purchase warrants outstanding had a weighted average remaining contractual life of Nil years (December 31, 2015 – 0.12 years).

The table below details the fair value of warrants during the periods noted:

	June 30, 2016	**December 31, 2015**
Balance, beginning of period	$ 3	$ 382
Fair value adjustment	(3)	(379)
Balance, end of period	$ -	$ 3

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Share-based compensation

14.1 Movements in stock options

The following reconciles the stock options outstanding at the beginning and end of each period:

		Six months ended June 30, 2016		**Year ended December 31, 2015**
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, beginning of period	95,554,786	0.31	135,727,289	0.30
Granted	2,476,232	0.06	9,065,387	0.12
Exercised	-	-	(1,075,166)	0.10
Forfeited	(5,165,145)	0.28	(20,121,953)	0.20
Expired	(5,562,792)	0.34	(28,040,771)	0.28
Balance, end of period	87,303,081	0.30	95,554,786	0.31
Exercisable, end of period	67,858,662	0.35	71,686,715	0.35

As at June 30, 2016, stock options outstanding had a weighted average remaining contractual life of 2.5 years (December 31, 2015 – 2.9 years).

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted in the year for share-based compensation:

Input Variables	**Six months ended June 30,2016**	**Year Ended December 31, 2015**
Grant date share price ($)	0.064	0.10-0.14
Exercise Price ($)	0.064	0.10-0.14
Expected volatility (%)	66.36	67.01-73.99
Option life (years)	4.07	4.10-4.11
Dividend yield (%)	-	-
Risk-free interest rate (%)	0.70	0.68-0.90
Expected forfeitures (%)	13.39	11.01-11.51

14.2 Share-based compensation

Share-based compensation has been recorded in the condensed interim consolidated financial statements for the periods presented as follows:

		Three months ended June 30, 2016			**Three months ended June 30, 2015**	
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ (318)	$ 42	$ (276)	$ 528	$ 372	$ 900

		Six months ended June 30, 2016			**Six months ended June 30, 2015**	
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ (157)	$ 133	$ (24)	$ 954	$ 635	$ 1,589

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

15. Finance costs

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Interest expense on senior notes	$ 6,374	$ 6,147	$ 12,614	$ 12,352
Interest expense on shareholder's loan	99	-	136	-
Amortization of financing transaction costs and discount	3,419	3,549	7,084	6,225
Redemption/yield maintenance premium	4,894	(45)	9,241	(45)
Financing related costs/(recovery)	379	(3)	428	-
Unwinding of discounts on provisions	250	243	510	513
	$ 15,415	$ 9,891	$ 30,013	$ 19,045

16. Loss per share

The weighted average number for basic Class "A" common shares for the periods presented is in the following table. Other than Class "A" common shares, all equity instruments have been excluded in calculating the diluted loss per share as they were anti-dilutive, considering the Company was in a loss position for the periods presented.

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Basic and Diluted – Class "A" common shares	4,305,613,719	3,900,059,091	4,267,938,912	3,898,550,986

17. Financial instruments

17.1 Capital risk management

The Company can be exposed to financial risks on its financial instruments and in the way that it finances its capital requirements. The Company manages these financial and capital structure risks by operating in a manner that minimizes its exposure to volatility.

The Company's strategy is to access sufficient capital, through equity issuances, joint ventures and the utilization of debt, in order to maintain a capital base for the objectives of maintaining financial flexibility and to sustain the future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. The Company expects its current capital resources will not be sufficient to complete its development plans through the next twelve months and will be required to raise additional funds through future equity or debt financings, a joint venture or a sale of assets. The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access immediate additional financing.

The Company's capital structure currently includes shareholders' equity and working capital deficiency as follows:

	June 30, 2016	December 31, 2015
Working capital deficiency	$ 311,024	$ 286,121
Shareholders' equity	595,286	604,098
	$ 906,310	$ 890,219

The working capital deficiency of $311.0 million at June 30, 2016 (December 31, 2015 – $286.1 million), includes the $258.7 million (December 31, 2015 - $266.3 million) current portion of the Notes and $6.9 million (December 31, 2015-Nil) director's loan. There was no change in the Company's objectives and strategies of capital management for the six month period ended June 30, 2016.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17.2 Categories of financial instruments

	June 30, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash, restricted cash and cash equivalents, deposits and other receivables	$ 11,776	$ 11,776	$ 30,788	$ 30,788
Financial liabilities				
Other liabilities	54,096	54,096	47,611	47,611
Share purchase warrants (Note 13.2)	-	-	3	3
Long-term debt (current portion)	258,697	252,931	266,321	228,025
Shareholder Loan (Note 18.1)	6,941	6,941	-	-

17.3 Fair value of financial instruments

Level 1 fair value measurements are based on quoted prices in active markets. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices. Level 3 fair value measurements are based on unobservable information.

The fair value of cash, restricted cash and cash equivalents, deposits, trade and other receivables, trade and accrued liabilities and the shareholder loan approximate their carrying values due to their short term maturity and were assessed on a level 1 fair value measurement.

The fair value of share purchase warrants and long term debt have been assessed on a level 2 fair value measurement.

17.4 Financial risk management

Financial risks include market risk (including currency risk, interest rate risk, and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company does not use any derivative financial instruments to mitigate these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

17.5 Market risk

Market risk is the risk that changes in market prices will affect the Company's net loss. The objective of market risk management is to manage and control market risk exposures within acceptable limits. There have been no changes over the prior year to the Company's objectives, policies or processes to manage market risks.

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum are impacted by world economic events that dictate the levels of supply and demand. The Company has not attempted to mitigate commodity price risk through the use of various financial derivative or physical delivery sales contracts.

17.6 Currency risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long term debt which are denominated in US dollars and/or HK dollars. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the three and six month periods ended June 30, 2016. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at June 30, 2016 would have been impacted by $Nil and the carrying value of the long term debt at June 30, 2016 would have been impacted by approximately $2.5 million. At June 30, 2016, the Company held approximately US $Nil of restricted cash and US$0.1 million or $0.2 million of cash, using the June 30, 2016 exchange rate of 1.3009, as cash, restricted cash and cash equivalents in the Company's US bank account.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17.6 Currency risk (Continued)

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2016 would have been impacted by HK$0.1 million. At June 30, 2016, the Company held approximately HK$11.1million or $1.8 million using the June 30, 2016 exchange rate of 5.9645, as cash in the Company's HK$ bank account.

The following table summarizes the components of the Company's foreign exchange (gains)/losses:

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Unrealized foreign exchange loss (gain) on translation of:				
U.S. denominated senior secured notes	$ 1,733	$ (3,920)	$ (14,569)	$ 16,378
H.K. denominated shareholder loan	39	-	(335)	-
Foreign currency denominated cash balances	138	758	101	(4,254)
Foreign currency denominated accounts payable balances	134	2	196	43
	2,044	(3,160)	(14,607)	12,167
Realized foreign exchange loss (gain)	(6)	10	557	1,190
Total foreign exchange loss (gain)	$ 2,038	$ (3,150)	$ (14,050)	$ 13,357

17.7 Interest rate risk management

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at June 30, 2016, the Company does not have any floating rate debt.

The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values or result in material interest rate risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. For the three and six month periods ended June 30, 2016, the interest rate earned on cash was between 0.1% and 1.55%.

17.8 Credit risk management

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash, deposits and receivables and GST receivables. As at June 30, 2016, the Company's receivables consisted of 4% from Goods and Services Tax receivable, 76% joint interest billing receivable and 20% from other receivables (December 31, 2015 – 45% from Goods and Services Tax receivable, 39% from joint interest billing receivable and 16% from other receivables).

The Company's unrestricted cash as at June 30, 2016, is held in accounts with third party financial institutions and consists of invested cash and cash in the Company's operating accounts.

At June 30, 2016, there was no allowance for doubtful accounts receivable and the Company did not provide for any doubtful accounts nor was it required to write-off any receivables, as no receivables were considered impaired (December 31, 2015 - $Nil). The Company considers any amounts outstanding in excess of 30 days past due.

17.9 Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or debt proceeds. At June 30, 2016, the Company had negative working capital of $311.0 million and an accumulated deficit of $657.3 million. The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access additional financing.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17.9 Liquidity risk management (Continued)

The Company utilizes authorizations for expenditures to manage its planned capital expenditures and actual expenditures are regularly monitored and modified as considered necessary.

The timing of cash outflows (excluding interest) relating to financial liabilities as at June 30, 2016, are as follows:

		Total		Less than 90 days		Less than 1 year
Trade and accrued liabilities	$	54,096	$	54,096	$	-
Shareholder Loan		6,941		6,941		-
Debt[1]		258,697		258,697		-
	$	319,734	$	319,734	$	-

1. Principal amount of Notes based on the period end exchange rate of $1 US = 1.3009CDN

18. Related party transactions

Balances and transactions between the Company and its subsidiaries, who are related parties, have been eliminated on consolidation.

18.1 Trading transactions

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13.1), and he has also loaned the Company funds on an unsecured basis.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan is considered Permitted Debt under the Company's Notes as long as it does not exceed US$5.0 million. The Loan has an interest rate of 6.0% per annum, can be drawn up to HK$38.0 million and requires repayment in full within six months from the date of the receipt of the Loan. The first loan balance at June 30, 2016 is HK$38.0 million (approximately $6.37 million).

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan has the same interest rate and repayment terms as the Loan, except it requires repayment in full within three months from the date of the receipt of the Loan. The Second Loan balance at June 30, 2016 is HK$3.4 million (approximately $0.57 million).

18.2 Compensation of key management personnel and directors

The remuneration of the directors and key management executives is determined by the Compensation Committee and consists of the following amounts:

	For the three months ended June 30,				For the six months ended June 30,			
		2016		2015		2016		2015
Directors' fees[1]	$	166	$	(17)	$	341	$	163
Salaries and allowances		482		472		1,620		1,354
Share-based payments		21		245		100		480
	$	669	$	700	$	2,061	$	1,997

1. Refer to appendix A2 for additional director fees disclosure.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19. Operating lease arrangements

Payments recognised as an expense

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Minimum lease payments	$ 504	$ 383	$ 1,040	$ 950

20. Commitments and contingencies

As at June 30, 2016, the Company's commitments are as follows:

	Total	2016	2017	2018	2019	Thereafter
Repayment of long-term debt[1]	$ 260,180	260,180	-	-	-	-
Interest payments on long-term debt[2]	13,009	13,009	-	-	-	-
Redemption premium[3]	18,988	18,988	-	-	-	-
Shareholder loan	6,941	6,941	-	-	-	-
Drilling, other equipment and contracts	6,646	6,340	224	82	-	-
Lease rentals[4]	8,793	695	1,250	1,250	1,243	4,355
Office leases	7,634	1,516	2,893	2,580	645	-
	$ 322,191	307,669	4,367	3,912	1,888	4,355

1. Principal amount of Notes based on the period end exchange rate of $1US=1.3009CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not been satisfied.
2. Based on 10% per annum and a maturity date of August 1, 2016, at the period end exchange rate of $1US=1.3009CDN.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2016. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2016. Using the period end exchange rate of $1US=1.3009 CDN this premium amounts to $18,988. At June 30, 2016, the Company had the option to redeem the Notes at 5.952% of the aggregate principal amount of the Notes outstanding which amounts to $15,486 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2016 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the consolidated financial statements for the three month period ended June 30, 2016 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21. Supplemental cash flow disclosures

Non-cash transactions

For the three and six month periods ended June 30, 2016 and June 30, 2015, the Company had the following non-cash transactions:

- capitalized general and administrative costs including share-based compensation and finance costs (Notes 7 and 8).

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Cash provided by (used in):				
Trade and other receivables	$ 177	$ 40	$ 835	$ (894)
Prepaid expenses and deposits	589	199	1,767	126
Trade and other payables	8,022	(5,860)	6,485	(3,584)
	$ 8,788	$ (5,621)	$ 9,087	$ (4,352)
Changes in non-cash working capital relating to:				
Operating activities				
Trade and other receivables	$ (46)	$ (27)	$ 70	$ (248)
Prepaid expenses and deposits	589	199	1,767	126
Trade and other payables	4,489	150	1,596	1,258
	$ 5,032	$ 322	$ 3,433	$ 1,136
Investing activities				
Exploration and evaluation	$ -	$ -	$ -	$ -
Property, plant and equipment	(4,089)	(12,090)	4,564	(6,625)
	$ (4,089)	$ (12,090)	$ 4,564	$ (6,625)
Financing activities				
Share issue costs and finance costs	$ 7,845	$ 6,147	$ 1,090	$ 1,137
	$ 8,788	$ (5,621)	$ 9,087	$ (4,352)

22. Subsequent events

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common Shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares (the "Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon the Partial Closing, the Company has received total gross proceeds of HK$72,300,000 (approximately CDN$12.2 million). The HK$72.3 million was comprised of HK$30.0 million in cash and HK$42.3 million in repayment of the Loan and the Second Loan plus interest due at July 19, 2016.

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares (the "Second Partial Closing") at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon the Second Partial Closing, the Company has received total gross proceeds of HK$114,000,000 (approximately CDN$19.2 million). The remaining 111,786,667 Common Shares (HK$83,840,000 or CDN$14.09 million) subscribed for by Prime Union will be closed in one or more tranches.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22. Subsequent events (Continued)

On August 3, 2016, the Company announced an extension past August 2, 2016, for the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union had advised Sunshine that it has been working diligently to obtain the regulatory approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union had also confirmed to Sunshine that it has the funds necessary to complete the subscription.

The Company entered into a forbearance agreement with all of the Noteholders of the Notes (the “Noteholders”) maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the “Second Forbearance Agreement”) with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 15, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine has paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US$10 million.

23. Approval of consolidated financial statements

The condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on August 11, 2016.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Appendix to the condensed interim consolidated financial statements (Unaudited)

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in these condensed interim consolidated financial statements is as follows:

A1. Sunshine Oilsands Ltd. Non-Consolidated Statement of Financial Position

The Company's statement of financial position is on a non-consolidated basis which excludes the Company's wholly owned subsidiaries Sunshine Hong Kong and Boxian.

		June 30, 2016		December 31, 2015
Non-current assets				
Property, plant and equipment	$	670,178	$	650,929
Exploration and evaluation assets		292,427		290,945
Amounts due from subsidiary		3,762		3,650
		966,367		945,524
Current assets				
Trade and other receivables		1,418		2,253
Prepaid expenses and deposits		6,352		8,119
Cash		4,253		5,559
Restricted cash and cash equivalents		-		14,389
		12,023		30,320
Current liabilities				
Trade and other payables		54,079		47,575
Provisions		3,566		3,492
Share purchase warrants		-		3
Amount due to subsidiary		3,031		2,692
Debt		258,697		266,321
Shareholder loan		6,941		-
		326,314		320,083
Net current assets		(314,291)		(289,763)
Total assets less current liabilities		652,076		655,761
Non-current liabilities				
Provisions		56,295		51,656
Net assets	$	595,781	$	604,105
Capital and reserves				
Share capital	$	1,189,708	$	1,174,987
Reserve for share-based compensation		62,886		62,910
Deficit		(656,813)		(633,792)
	$	595,781	$	604,105

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A2. Directors' emoluments and other staff costs

The Directors' emoluments and other staff costs are broken down as follows:

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Directors' emoluments				
Directors' fees	$ 166	$ (17)	$ 341	$ 163
Salaries and allowances	540	236	1,455	875
Share-based payments	21	176	85	346
	727	395	1,881	1,384
Other staff costs				
Salaries and other benefits	1,493	3,258	2,955	6,393
Contribution to retirement benefit scheme	35	60	193	252
Share-based payments	(298)	724	(110)	1,243
	1,230	4,042	3,038	7,888
Total staff costs, including directors' emoluments	1,957	4,437	4,919	9,272
Less: staff costs capitalized to qualifying assets	667	1,722	1,534	3,381
	$ 1,290	$ 2,715	$ 3,385	$ 5,891

A3. Directors' emoluments

Details of the Directors' emoluments are as follows:

For the three months ended June 30, 2016						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	$ 20	$ -	$ -	$ -	$ -	$ 20
Michael Hibberd	20	-	-	30	-	50
Hong Luo	13	132		6		151
Qi Jiang	13	144		21		178
Qiping Men	-	126		8		134
Tseung Hok Ming	14			(28)		(14)
Jianzong Chen	10	-	-	-	-	10
Jimmy Hu	11	-	-	-	-	11
Zhefei Song	15	-	-	-	-	15
Robert Herdman	19	-	-	(28)	-	(9)
Gerald Stevenson	15	-	-	2	-	17
Raymond Fong	16	-	-	2	-	18
Yi He	-	-	-	-	-	-
Joanne Yan	-	-	-	-	-	-
Xijuan Jiang	-	-	-	-	-	-
	$ 166	402	$ -	$ 13	$ -	$ 581

1. For the period ended June 30, 2016, no options have been granted to Directors.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A3. Directors' emoluments (Continued)

For the three months ended June 30, 2015

Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Michael Hibberd	$ 25	$ 111	$ -	$ 77	$ -	$ 213
Tseung Hok Ming	15	-	-	6	-	21
Tingan Liu[1]	(197)	-	-	-	-	(197)
Haotian Li	12	-	-	6	-	18
Raymond Fong	17	-	-	6	-	23
Robert Herdman	21	-	-	6	-	27
Gerald Stevenson	22	-	-	6	-	28
Jimmy Hu	11	-	-	-	-	11
Zhefei Song	17	-	-	-	-	17
Hong Luo	17	-	-	16	-	33
Qi Jiang	17	126	-	53	-	196
Kwok Ping Sun	6	-	-	-	-	6
	$ (17)	$ 237	$ -	$ 176	$ -	$ 396

For the six months ended June 30, 2016

Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	$ 38	$ -	$ -	$ -	$ -	$ 38
Michael Hibberd	40	-	-	59	-	99
Hong Luo	26	268	-	13	-	307
Qi Jiang	31	923	-	41	-	995
Qiping Men	-	264	-	16	-	280
Tseung Hok Ming	26	-	-	(26)	-	-
Jianzong Chen	20	-	-	-	-	20
Jimmy Hu	22	-	-	-	-	22
Zhefei Song	30	-	-	-	-	30
Robert Herdman	38	-	-	(26)	-	12
Gerald Stevenson	35	-	-	4	-	39
Raymond Fong	35	-	-	4	-	39
Yi He	-	-	-	-	-	-
Joanne Yan	-	-	-	-	-	-
Xijuan Jiang	-	-	-	-	-	-
	$ 341	$ 1,455	$ -	$ 85	$ -	$ 1,881

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A3. Directors' emoluments (Continued)

For the six months ended June 30, 2015						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Michael Hibberd	$ 45	$ 223	$ -	$ 152	$ -	$ 420
Tseung Hok Ming	30	-	-	12	-	42
Tingan Liu[1]	(178)	-	-	-	-	(178)
Haotian Li	24	-	-	12	-	36
Raymond Fong	36	-	-	12	-	48
Robert Herdman	41	-	-	12	-	53
Gerald Stevenson	41	-	-	12	-	53
Jimmy Hu	24	-	-	-	-	24
Zhefei Song	31	-	-	-	-	31
Hong Luo	30	-	-	31	-	61
Qi Jiang	33	652	-	103	-	788
Kwok Ping Sun	6	-	-	-	-	6
	$ 163	$ 875	$ -	$ 346	$ -	$ 1,384

1. Upon receipt of a waiver from Mr. Liu, all prior period director entitlement accruals were reversed.

A4. Five highest paid individuals

The five highest paid individuals were within the following emolument bands:

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
HK$ nil to HK$1,000,000	4	3	1	-
HK$1,000,001 to HK$1,500,000	1	2	1	3
HK$1,500,001 to HK$2,000,000	-	-	2	-
HK$2,000,001 to HK$2,500,000	-	-	-	-
HK$2,500,001 to HK$3,000,000	-	-	-	1
HK$3,000,001 to HK$3,500,000	-	-	-	-
HK$3,500,001 to HK$4,000,000	-	-	-	-
HK$4,000,001 to HK$4,500,000	-	-	-	-
HK$4,500,001 to HK$5,000,000	-	-	-	1
HK$5,000,001 to HK$5,500,000	-	-	-	-
HK$5,500,001 to HK$6,000,000	-	-	1	-
HK$6,000,001 to HK$6,500,000	-	-	-	-
HK$6,500,001 to HK$7,000,000	-	-	-	-
> HK$7,000,000	-	-	-	-

For the three and six month periods ended June 30, 2016, respectively, the conversion factor used in the above table is 1C$ = 6.02 HK$ and 1C$ = 5.84 HK$ (three and six month periods ended June 30, 2015 – 1C$ = 6.31 HK$ and 1C$ = 6.28 HK$, respectively)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A4. Five highest paid individuals (Continued)

The five highest paid individuals includes four directors of the Company and one key management executives of the Company for the three and six month periods ended June 30, 2016 (three and six month periods ended June 30, 2015– two directors and three officers). Since the directors' emoluments are disclosed above, the compensation of the one key management executives for the Company is as follows:

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Salaries and other benefits	$ 80	$ 236	$ 165	$ 474
Contributions to retirement benefits scheme	-	-	-	5
Share-based payments	8	69	15	134
	$ 88	$ 305	$ 180	$ 613

A5. Senior management remuneration by band

The emoluments fell within the following bands:

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
HK$ nil to HK$1,000,000	4	6	1	3
HK$1,000,001 to HK$1,500,000	1	2	1	3
HK$1,500,001 to HK$2,000,000	-	-	2	-
HK$2,000,001 to HK$2,500,000	-	-	-	-
HK$2,500,001 to HK$3,000,000	-	-	-	1
HK$3,000,001 to HK$3,500,000	-	-	-	-
HK$3,500,001 to HK$4,000,000	-	-	-	-
HK$4,000,001 to HK$4,500,000	-	-	-	-
HK$4,500,001 to HK$5,000,000	-	-	-	-
HK$5,000,001 to HK$5,500,000	-	-	-	-
HK$5,500,001 to HK$6,000,000	-	-	1	-
HK$6,000,001 to HK$6,500,000	-	-	-	-
HK$6,500,001 to HK$7,000,000	-	-	-	-
> HK$7,000,000	-	-	-	-

The table above includes the remuneration for the executive directors and executive officers of the Company. As at June 30, 2016, \$0.7 million (2015 - \$0.6 million) was the total payable to five members (2015- five members) of senior management and included in trade and accrued liabilities.

Corporate Information

BOARD OF DIRECTORS:

Executive Directors:
Mr. Kwok Ping Sun (Chairman)
Mr. Hong Luo
Dr. Qi Jiang
Mr. Qiping Men

Non-Executive Directors:
Mr. Michael John Hibberd (Vice Chairman)
Mr. Jianzhong Chen
Ms. Xijuan Jiang

Independent Non-Executive Directors:
Mr. Raymond Shengti Fong
Mr. Gerald Franklin Stevenson
Mr. Yi He
Mr. Joanne Yan

AUTHORIZED REPRESENTATIVES:
Mr. Wai Kai Yuen

AUDITORS:
Deloitte LLP

LEGAL ADVISERS:
McCarthy Tétrault LLP
Herbert Smith Freehills

COMPETENT PERSONS:
DeGolyer and MacNaughton Canada Limited
GLJ Petroleum Consultants Limited

PRINCIPAL BANKERS:
Bank of China (Hong Kong) Limited
Bank of China (Canada)
ATB Financial

AUDIT COMMITTEE:
Mr. Gerald Franklin Stevenson (Chairman)
Mr. Raymond Shengti Fong
Ms. Joanne Yan
Mr. Yi He

COMPENSATION COMMITTEE:
Mr. Kwok Ping Sun (Chairman)
Mr. Raymond Shengti Fong
Ms. Joanne Yan

RESERVES COMMITTEE:
Mr. Gerald Franklin Stevenson (Chairman)
Dr. Qi Jiang
Mr. Raymond Shengti Fong

CORPORATE GOVERNANCE COMMITTEE:
Mr. Kwok Ping Sun (Chairman)
Mr. Michael John Hibberd
Mr. Raymond Shengti Fong
Ms. Joanne Yan
Mr. Yi He

CORPORATE HEADQUARTERS:
Suite 1020, 903 Eighth Avenue SW
Calgary, Alberta
T2P 0P7 Canada

REGISTERED OFFICE IN ALBERTA:
Suite 4000, 421 Seventh Avenue SW
Calgary, Alberta
T2P 4K9 Canada

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:
8504A, 85/F, International Commerce Centre,
1 Austin Road West, Kowloon
Hong Kong

PLACE OF SHARE LISTING AND STOCK CODE:
The Stock Exchange of Hong Kong Limited: 2012

SHARE REGISTRAR IN ALBERTA:
Alliance Trust Company

WEBSITE:
www.sunshineoilsands.com

SHARE REGISTRAR IN HONG KONG:
Computershare Hong Kong Investor Services Limited