



阳光油砂

SUNSHINE OILSANDS LTD.

SUNSHINE OILSANDS LTD.
阳光油砂有限公司 *

(a corporation incorporated under the Business Corporations Act of the Province of Alberta, Canada with limited liability)
(HKEX : 2012)

年 報
2017



**ANNUAL
REPORT
2017**

* For identification purpose only

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SUMMARY OF AUDITED FINANCIAL FIGURES

As at and for the year ended December 31	2017 (\$000s)	2016 (\$000s)	2015 (\$000s)	2014 (\$000s)	2013 (\$000s)
Cash and cash equivalents	3,671	13,635	6,545	136,097	15,854
Current restricted cash and cash equivalents	-	-	14,389	23,467	-
Non-current restricted cash and cash equivalents	-	-	-	11,601	-
Exploration and evaluation assets	268,227	291,716	290,945	379,403	376,912
Property, plant and equipment	507,416	684,531	650,930	701,736	634,672
Total liabilities	428,787	390,135	369,083	288,044	148,415
Shareholders' equity	356,569	607,455	604,098	972,016	880,973
Net loss	281,852	73,310	406,135	26,767	32,780
Net loss per share (\$ per basic and diluted share)	0.05	0.02	0.10	0.01	0.01

MESSAGE TO SHAREHOLDERS

In 2017, Sunshine (the “Company” or “Sunshine”) continued to focus on evaluating and developing its oil sands assets, with its main emphasis on the West Ells Project (the “West Ells Project”).

On March 1, 2017, the Company achieved a key milestone. The West Ells Project commenced commercial production. Hence, effective March 1, 2017, the Company started recording revenue, royalties, expenses and depletion of the West Ells Project.

For twelve month ended December 31, 2017, average bitumen production was 1,940 bbls/day. Diluent was blended at an 18.1% volumetric rate with the bitumen as part of the production process to create the marketable “Dilbit” blend product, and the average dilbit sales volume was 2,324 bbls/day.

SUNSHINE’S CAPITAL RAISING ACTIVITIES

On January 17, 2017, the Company entered into a subscription agreement for a total of 60,000,000 class “A” common shares at a price of HKD \$0.262 per share (approximately CAD \$0.045 per common share), for gross proceeds of HKD \$15.7 million (approximately CAD \$2.7 million). On January 24, 2017, the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$117,900 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

On March 16, 2017, the Company entered into a subscription agreement for a total of 247,350,000 class “A” common shares at a price of HKD \$0.283 per share (approximately CAD \$0.050 per common share), for gross proceeds of HKD \$70 million (approximately CAD \$12.1 million). On March 24, 2017, the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$525,000 (approximately CAD \$0.09 million), was incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement with for a total of up to 150,000,000 Class “A” Common Voting Shares of the Company (“Common Shares”) at a price of HKD \$0.29 per Common Share or approximately CAD \$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD \$43.5 million (approximately CAD \$7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD \$0.29 (approximately CAD \$0.050 per Common Share). The Company received total gross proceeds of HKD \$11.6 million (approximately CAD \$2.0 million). The subscription agreement expired on March 28, 2017 and no further closings occurred.

On April 5, 2017, the Company entered into a subscription agreement for a total of 140,874,000 class “A” common shares at a price of HKD \$0.241 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$33.95 million (approximately CAD \$5.8 million). On April 13, 2017, the Company completed the closing of this subscription agreement.

On May 31, 2017, the Company entered into a subscription agreement for a total of 67,511,000 class “A” common shares at a price of HKD \$0.237 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$15.88 million (approximately CAD \$2.74 million). On June 7, 2017, the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$122,314 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

On October 18, 2017, the Company entered into a subscription agreement for a total of 8,934,755 class “A” common shares at a price of HKD \$0.257 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$2.3 million (approximately CAD \$0.4 million). On October 31, 2017, the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with an independent third party.

MESSAGE TO SHAREHOLDERS

On December 14, 2017, the Company entered into a subscription agreement for a total of 60,606,500 class “A” common shares at a price of HKD \$0.264 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$16 million (approximately CAD \$2.6 million). On December 20, 2017, the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$482,319 (approximately CAD \$0.08 million), was incurred in relation to the Closing.

Subsequent to December 31, 2017, on January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class “A” common shares at a price of HKD \$0.272 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$22.0 million (approximately CAD \$3.5 million). On January 22, 2018, the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$0.7 million (approximately CAD \$0.1 million), was incurred in relation to the Closing.

On February 5, 2018, the Company entered into a subscription agreement for a total of 122,951,000 class “A” common shares at a price of HKD \$0.244 per share (approximately CAD \$0.039 per common share), for gross proceeds of HKD \$30.0 million (approximately CAD \$4.75 million). On February 13, 2018, the Company completed the closing of 116,803,500 class “A” common shares at a price of HKD \$0.244 per share for gross proceeds of HKD \$28.3 million (approximately CAD \$4.6 million) of this subscription agreement. In addition, a placing commission of HKD \$0.9 million (approximately CAD \$0.14 million), was incurred in relation to the Closing. The subscription agreement expired on February 13, 2018, and hence the time to close the remaining 6,147,500 class “A” common shares lapsed.

On February 28, 2018, the Company entered into a subscription agreement for a total of 102,436,500 class “A” common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$25.1 million (approximately CAD \$4.1 million). A payment of CAD \$455 thousand cash is to be made. On March 14, 2018, the Company completed the closing of this subscription agreement and the payment was made. This subscription agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018, the Company entered into a subscription agreement for a total of 20,393,059 class “A” common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$5.0 million (approximately CAD \$0.8 million). On March 14, 2018, the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with an independent third party.

Specific mandate

On June 5, 2017, the Company entered into a subscription agreement with Prime Union at the issue price of HKD \$0.234 per common share (approximately CAD \$0.041 per common share) for an aggregate cash consideration of HK \$106.5 million (approximately CAD \$18.5 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 Company. The subscription was to be completed pursuant to the Special Mandate to be sought from the Independent Shareholders at the Special General Meeting (“SGM”). On August 4, 2017, the SGM was held in Sunshine Hong Kong office, and the subscription agreement resolution was duly passed as an ordinary resolution. The subscription agreement lapsed on August 28, 2017.

SUMMARY OF FINANCIAL FIGURES

As at December 31, 2017 and December 31, 2016, the Company notes the following selected balance sheet figures.

(Canadian \$000s)	December 31, 2017	December 31, 2016
Cash	3,671	\$13,635
Trade and other receivables	4,932	2,654
Prepaid expense and deposits	1,110	5,054
Exploration and evaluation assets	268,227	291,716
Property, plant and equipment	507,416	684,531
Total liabilities	428,787	390,135
Shareholders' equity	356,569	607,455

For the fourth quarter of 2017, the Company had a net loss of \$228.4 million, compared to a net loss of \$23.2 million for the same period in 2016, representing a net loss per share for each respective year of \$0.04 and \$0.01. For the year ended December 31, 2017, the Company had a net loss of \$281.9 million compared to a net loss of \$73.3 million for the year ended December 31, 2016, representing a net loss per share for each respective year of \$0.05 and \$0.02.

RESERVES AND RESOURCES

On March 18, 2018, the Company announced the results of its reserves and resources evaluations, effective as at December 31, 2017. For a full discussion of the Company's reserves and resources data and other oil and gas information, see section "Statement of Reserves Data and Other Oil and Natural Gas Information" and "The Company's Contingent Resources Data" in Appendix "A" of the Company's Annual Information Form (AIF) for the year ended December 31, 2017, a copy of which is available on the SEDAR website at www.sedar.com.

Reserves and resources evaluations, dated December 31, 2017, were completed by independent evaluators, GLJ Petroleum Consultants Ltd. and Boury Global Energy Consultants Ltd. The following tables summarize the overall reserves information as well as contingent resource volumes.

	Reserves (Bitumen)					
	Proved (1P)		Proved Plus Probable (2P)		Proved Plus Probable Plus Possible (3P)	
	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10 % (\$MM)	Gross (MMbbls)	PV10% (\$MM)
Total	<u>77</u>	<u>82</u>	<u>264</u>	<u>345</u>	<u>373</u>	<u>665</u>

MESSAGE TO SHAREHOLDERS

In 2017, West Ells, the Company's first SAGD project was in early production mode. The volume of West Ells Proved Reserves was therefore revised for production of bitumen during the year. In the 2017 GLJ report, the forecasted Canadian heavy oil price was lowered by as much as CAD\$8.26/bbl compared to 2016's pricing assumptions. For this reason, the assessment of Thickwood was still sub economic. As a result, there were no reserves and contingent resources volumes reported for Thickwood. In 2017, properties that had assigned reserves volumes were West Ells and Legend Lake. No exploratory or development wells were completed by the Company in 2017.

The Company's total assessed Best Estimate Risked Contingent Resources (Development Pending, Development Unclarified and Development On Hold) as at December 31, 2017 are as follows:

Sub Class	Best Estimate Risked Contingent Resources Gross (MMbbls)
Total Development Pending	4
Total Development on Hold	254
Total Development Unclarified	721

Values assigned to Sunshine's Best Estimate Risked Contingent Resources were reduced due to lower forecasted oil prices.

2018 OUTLOOK

Sunshine sees a brightening outlook as international oil prices stabilize and steadily increase and expects heavy price differentials to continue to narrow. The Company will continue to focus on cost controls and on carefully improving production performance at the West Ells Project as SAGD chambers mature.

ACKNOWLEDGEMENTS

We would like to thank our Board of Directors, our staff and our stakeholders for their continuing support in advancing our corporate initiatives during a challenging commodity price cycle. We intend to ensure that Phase 1 West Ells facilities operate efficiently and achieve nameplate capacity. At the same time, we are continuing with efforts to secure capital to support existing operations and to fund our Phase II expansion plans in West Ells and in our other project areas.

"Kwok Ping Sun"

Chairman of the Board

"Qiping Men"

Executive Director, CEO

"Gloria Ho"

Executive Director, CFO

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE CHAIRMAN AND DIRECTOR

Mr. Kwok Ping Sun (“Mr. Sun”), aged 53, is an Executive Chairman and Executive Director appointed by the Board on June 28, 2015. He was appointed as a Non-Executive Director by the Board on May 27, 2015. Mr. Sun is the founder of Nobao Renewable Energy Holdings Limited (“Nobao”) and has served as the Chairman of the Board, Director and Chief Executive Officer of Nobao since its inception in 2007. Prior to founding Nobao, Mr. Sun was the General Manager of Shanghai Nobao Electric Appliance Co., Ltd from 2005 to 2007. In 2003, Mr. Sun started his own research and development with respect to ground source heat pump (GSHP) systems and gained over 10 years of experience in this area. From 1999 to 2002, Mr. Sun served as the General Manager of Dynamic Co., Ltd of Denmark and was responsible for developing wind power projects in China in cooperation with Chinese local companies. From 1994 to 1998, Mr. Sun was the Chief Executive Officer of Wu Fong Investment Co., Ltd of Denmark. Between 1983 and 1990, Mr. Sun worked as an Official of the customs department, the publicity department and the foreign trade bureau of the City Government of Zhangjiagang, Jiangsu Province, People’s Republic of China. Mr. Sun has over 20 years of experience in automated control systems through his experiences described above as well as his experience as the General Manager of Jiangsu Zhongwang Electronics Co., Ltd. between 1990 and 1993 and as an Engineer of Zhangjiagang Radio Factory between 1979 and 1982. Mr. Sun graduated from Suzhou Transportation Vocational College in 1985 and received an EMBA degree from Tsinghua University in 2006.

NON-EXECUTIVE VICE CHAIRMAN AND DIRECTOR

Mr. Michael J. Hibberd (“Mr. Hibberd”), aged 62, has been a Non-Executive Vice-Chairman and a Non-Executive Director since June 28, 2015. He was Executive Vice-Chairman of the Company from November 28, 2014 to June 28, 2015. He was Executive Chairman from June 25, 2014 to November 28, 2014 and was Executive Co-Chairman of the Company from October 6, 2008 to June 25, 2014. Mr. Hibberd was a founder of the Company and held the title of Chairman and Co-CEO from May, 2007 to October 6, 2008. Mr. Hibberd is President and CEO of MJH Services Inc., a corporate finance advisory company established in January 1995. Mr. Hibberd has extensive international energy project planning and capital markets experience. Prior to January 1995, Mr. Hibberd spent 12 years with ScotiaMcLeod. Mr. Hibberd worked in corporate finance in Toronto and Calgary and held the position of Director and Senior Vice-President, Corporate Finance. Mr. Hibberd is currently Chairman of Canacol Energy Ltd. (TSX and Bolsa de Valores de Colombia) and Greenfields Petroleum Corporation (TSX Venture Exchange). He is a director of Montana Exploration Corp., PanOrient Energy and PetroFrontier Corp., all of which are listed on the TSX Venture Exchange. Mr. Hibberd was previously Chairman of Heritage Oil Plc and Heritage Oil Corporation. He was also director of Challenger Energy Corp., Deer Creek Energy Limited, Iteration Energy Ltd., Zapata Energy Corporation, Sagres Energy Inc. and Rally Energy Corp. Mr. Hibberd obtained his BA in 1976 and his MBA in 1978 from the University of Toronto. He obtained his LLB from University of Western Ontario in 1981, was called to the bar in 1983 and is a member of The Law Society of Upper Canada.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (“EDs”)

Mr. Qiping Men (“Mr. Men”), age 53, currently the Chief Executive Officer and an Executive Director. He was appointed as Interim Chief Executive Officer of the Company from September 1, 2017 to December 31, 2017. He had been serving in the capacity of Interim Chief Financial Officer since July 21, 2014 and became the Chief Financial Officer of the Company on December 18, 2015. He was further appointed as an executive Director of the Company on June 30, 2016. On October 20, 2016, he was further appointed as President and Chief Operations Officer of the Company. Prior to joining the Company, Mr. Men was the Vice President of Goldenkey Oil Inc., a private oil and gas company based in Calgary, Alberta. Prior thereto, Mr. Men was the Chief Financial Officer and Vice President of each of Anterra Energy Inc. and Sahara Energy Ltd., both of which are publicly traded companies on the Toronto Stock Exchange Venture Exchange.

Mr. Men has a Bachelor’s Degree in Mechanical Engineering, is a Professional Engineer and an APEGA member. He has an MBA from Dalian University of Technology, as well as a Canadian CPA designation. He is also a member of Chartered Professional Accountants of Alberta with a public accountant designation.

Ms. Gloria Pui Yun Ho (“Ms. Ho”), age 37, became an Executive Director on June 27, 2017. She was appointed as Chief Financial Officer of the Company from November 2016. Ms. Ho has extensive experience in investment, risk management, corporate banking and finance. Prior to joining the Company, she worked in equity research, credit analysis, capital strategy, funds management and auditing in several international institutions and most recently as the Chief Executive of a reputable Chinese-based asset management firm.

Ms. Ho is a Chartered Accountant, Certified Public Accountant, Chartered Financial Analyst and Chartered Alternative Investment Analyst. Ms. Ho holds a postgraduate certificate in Financial Engineering at Stanford University and a M.Sc. in Finance at the University of Illinois at Urbana-Champaign.

NON-EXECUTIVE DIRECTORS (“NEDs”)

Mr. Hong Luo (“Mr. Luo”), aged 55, re-designed as Non-Executive Director on March 19, 2018. He was appointed as an Executive Director since July 17, 2015 and as the Chief Executive Officer during the period from July 17, 2015 to September 1, 2017 and was appointed as a Non-Executive Director of the Company from November 28, 2014 to July 16, 2015. Mr. Luo has 33 years’ experience in the oil and gas industry. Previously he was Executive Vice President of Sinopec Canada Energy Ltd. from February 2012 to July 2015. Prior to joining Sinopec Canada Energy Ltd., Mr. Luo was Director of Strategy and Planning at Sinopec International Petroleum Exploration and Production Corporation (SIPC) from September 2009 to January 2012. From May 2008 to August 2009, Mr. Luo was President of West Africa and Asia-Pacific Exploration and Production Projects and from May 2007 to April 2008, he served as Director of Exploration of SIPC. Mr. Luo was Vice President of the First International Oil Company of SIPC in Kazakhstan from April 2006 to April 2007 and, from April 2004 to March 2006, Mr. Luo was Exploration Manager of Saudi Sinopec Gas Co. (Saudi Arabia). Prior to 2004, Mr. Luo held executive leadership positions in Northwest Oil Company’s business units of Sinopec in China, serving in many executive capacities and in numerous geological, engineering, operational and planning roles throughout northwest China and the Tarim Basin. Mr. Luo holds a Bachelor of Geology from the University of Science and Technology of Chengdu, China.

Ms. Linna Liu (“Ms. Liu”), aged 40, is a Non-Executive Director appointed by the Board on April 6, 2017. Ms. Liu is currently Head of Special Situation Investment Division of Bank of China Group Investment Limited (“BOCGI”). Prior to joining BOCGI, from 2000 to 2015, Ms. Liu held a number of positions in Bank of China Headquarters and in its New York Branch. Ms. Liu has over 17 years of experience in Banking and Financing. Ms. Liu graduated from Peking University and Columbia University and holds Bachelors and Master degrees.

Ms. Xijuan Jiang (“Ms. Jiang”) age 52, became a Non-Executive Director on June 30, 2016. She was a senior engineer with 25 years of experience in industrial applications. Ms. Jiang is the recipient of numerous design awards, primarily in respect of heating and ventilation systems. Ms. Jiang has been the Vice President and Chief Engineer of Nuoxin Energy Technology (Shanghai) Co. Ltd. since November 2012. Prior thereto, she was the Chief Engineer (Water and Sewer) at the Architecture Branch of Shougang Design Institute. Ms. Jiang obtained a Bachelor degree from the Xi’an University of Architecture and Technology in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDs”)

Mr. Raymond Shengti Fong (“Mr. Fong”), aged 71, is an Independent Non-Executive Director appointed on May 9, 2007. Mr. Fong has over 31 years of experience in the oil and gas industry. Mr. Fong is currently an Executive Director of Palinda International Group Limited. He held previous directorships with China Coal Corporation, Abenteuer Resources Ltd., Stealth Ventures Ltd., Zapata Capital Inc., was director and president of Ultra Capital Inc. and a former director of United Rayore Gas Ltd. Mr. Fong obtained a Bachelor of Science degree from the Taiwan Cheng Kung University in 1970, and a Master of Science degree from the Tennessee Technological University in 1971. Mr. Fong is a registered professional engineer in both Ontario and Alberta, Canada.

Ms. Joanne Yan (“Ms. Yan”), age 60, is an Independent Non-Executive Director appointed on June 30, 2016. Ms. Yan has over twenty years of experience advising, directing and managing publicly listed companies in North America. She has been a leading director, a corporate governance committee chair and audit committee member of numerous companies listed on the TSX Venture Exchange and the TSX. She also has been active in the cross border investment and M&A space and is familiar with the business culture and operations of North American and Chinese businesses.

Since September 1994, Ms. Yan has been President of Joyco Consulting Services Inc., a wholly-owned private company based in Vancouver, BC, providing business consulting services particularly with respect to mergers and acquisitions and related public and private financings. Ms. Yan is currently a director of Hanwei Energy Services Corp., a TSX listed company that manufactures and sells high-pressure fibreglass reinforced plastic pipes for international oil & gas and infrastructure industries in addition to producing oil & gas in Canada; and a director of Avanco Capital Corp, a company listed on TSX Venture Exchange. From June 2006 to November 2013, Ms. Yan was the President and a director of Brazil Resources Inc. (formerly, Brazilian Gold Corp.), a resource exploration company with international scope, which is listed on the TSX Venture Exchange (trading symbol BRI). Ms. Yan was a director of Grande West Corp. from November 2013 to May 2014, Archer Petroleum Corp. from April 2013 to October 2014 and New Era Minerals Inc. from June 2014 to April 2016.

Mr. Yi He (“Mr. He”), age 45, is an Independent Non-Executive Director appointed on June 30, 2016. He has worked in the financial industry for more than 22 years and held various senior management roles in several global banks in China. In 2012, Mr. He was appointed as Chief Executive Officer of Nomura China Bank and led all China related banking businesses. From 2008 to 2012, he was in charge of China related banking business for Barclays Bank as the General Manager of the Shanghai Branch. Prior thereto, Mr. He led the global markets business for Australia and New Zealand Banking Corporations Limited and was the Deputy General Manager of ANZ China. Mr. He began his career with Credit Agricole China in 1994 and joined First Sino Bank as the Head of Treasury in 1997.

Mr. He has been an independent non-executive director of Kai Yuan Holding Limited Company (SEHK code: 01215) since 2011 and is member of the audit committee, the remuneration committee, and the nomination committee of Kai Yuan Holding Limited Company.

Mr. He founded Yaoxin Asset Management Company in early 2015, which mainly focuses on financial related consulting. In addition, Mr. He holds a Master Degree in Economics from Fudan University of China and also is a Certified Professional Accountant in China.

Mr. Jeff Jingfeng Liu (“Mr. Liu”), age 40, is an Independent Non-Executive Director appointed on June 27, 2017. He is the founder and CEO of Jingshuo Capital, which is an investment management company focusing on investment advisory and private equity fund investment management business. He has more than 16 years of financial and investment related experience. Prior to founding Jingshuo Capital, Mr. Liu was executive director of investment management division of Goldman Sachs (Asia) LLC from 2012 to 2016, where he was providing discretionary investment services to the entrepreneurs and listing companies in Greater China region, helping the clients to invest in global special investment opportunities, and invest in the leading private equity fund and hedge fund. From 2001 to 2008, Mr. Liu started his professional career at HSBC where he held various senior roles in commercial banking department and specialized in corporate financing business for State-owned enterprises and private enterprises in China. After that, he joined JP Morgan as vice president of private banking Greater China team based in Hong Kong in 2009, where he was providing private wealth management and investment advisory services to ultra-high net worth individuals and institutional clients. Mr. Liu graduated from Fudan University of China in 2001 and holds bachelor degree in economics.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of the Company is pleased to present this Corporate Governance Report for the year ended December 31, 2017. The Company and the Board are committed to maintaining high standards of corporate governance. The Company and the Board recognize that high quality corporate governance practices are fundamental to the effective and transparent operation of a corporation and its ability to protect the rights of its shareholders and enhance shareholder value.

Since March 1, 2012 (the “Listing Date”), the Company has been in compliance with the Corporate Governance obligations under the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) save as discussed below. The Company confirms its compliance with the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules since the Listing Date, save as discussed below that the Company has not yet entered into formal letters of appointment with its directors and therefore has deviated from Code Provision D.1.4 of the Code. The Company has deviated from Code Provision D.1.4 of the Code since each of the Directors will be elected on an annual basis at each annual general meeting, which is consistent with market practice in Canada.

The Board has established audit committee, corporate governance committee, compensation committee and reserves committee for overseeing particular aspects of the Company’s affairs. All Board committees are established with defined written terms of reference which are posted on the Company’s website and are available to shareholders upon request. Meetings of the Board committees generally follow the same procedures as for meetings of the Board.

The Company has, throughout the year ended December 31, 2017, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listing standards. The Company’s current practices are reviewed and updated regularly to ensure high quality corporate governance.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-Executive Directors are independent. The Board is of the view that all the Independent Non-Executive Directors are independent and have appropriate professional qualifications or accounting or related financial management expertise in accordance with Rule 3.10 of the Listing Rules.

The Board has established clear guidelines with respect to matters that must be approved or recommended by the Board, including, without limitation, approval and adoption of the Company’s operating budget and capital expenditure budget; the hiring or dismissal of the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary or certain other members of the Company’s senior management team; and approving and recommending significant transactions. The day-to-day management administration and operation of the Company are delegated to the Chief Executive Officer and senior management of the Company. The Company has arranged for appropriate insurance coverage in respect of potential legal actions against its directors and senior management.

The Board consists of the following members:

Mr. Kwok Ping Sun	Executive Director (“ED”) and Executive Chairman
Mr. Qiping Men	Executive Director and Chief Executive Officer
Ms. Gloria Pui Yun Ho	Executive Director and Chief Financial Officer
Mr. Michael J. Hibberd	Non-Executive Director (“NED”) and Non-Executive Vice-Chairman
Mr. Hong Luo	Non-Executive Director
Ms. Xijuan Jiang	Non-Executive Director
Ms. Linna Liu	Non-Executive Director
Mr. Raymond S. Fong	Independent Non-Executive Director (“INED”)
Mr. Yi He	Independent Non-Executive Director
Mr. Jeff Jingfeng Liu	Independent Non-Executive Director
Ms. Joanne Yan	Independent Non-Executive Director

Practices and Conduct of Meetings

Notice of regular Board meetings is given to all directors of the Company (the “Directors”) at least fourteen days in advance, and reasonable notice is generally given for other Board meetings. Annual meeting schedules and the draft agendas of each meeting are normally made available to Directors in advance. Arrangements are in place to allow Directors to include items in the agenda. Final agendas and Board papers are sent to Directors before each regular Board meeting so that the Board can make informed decisions on matters placed before it. Each Director also has separate and independent access to senior management where necessary.

Minutes of the Board and committee meetings are kept by the Corporate Secretary.

If a Director or any of his associates has a material interest in a transaction, that Director is required to disclose his interest and to abstain from voting and not to be counted in the quorum at the meeting for approving the transaction.

Appointment and Election of Directors

The Company has a formal and transparent procedure for the identification of nominees for Directors and recommendation to the Board, which is led by the corporate governance committee.

Nominees for Directors are elected to hold office until the next annual meeting of the shareholders of the Company or until his successor is duly elected or appointed, unless his office is vacated earlier, in accordance with the articles of incorporation and by-laws of the Company.

With the exception of the newly appointed Mr. Jeff Liu and Ms. Gloria Ho by shareholders at the annual general meeting of the Company held on June 27, 2017, each of the other Directors was re-elected at that annual general meeting. Each Director is subject to re-election annually. Details of the appointment and election of Directors are set out in the “Directors and Senior Management” section of this Annual Report.

Each Director, including Non-Executive Directors, have a term of appointment which is from the time of election at the annual general meeting to the following annual general meeting of shareholders; at which point the director must be re-elected.

Induction and Ongoing Development

Each newly appointed Director has access to a comprehensive and tailored induction to ensure his or her understanding of the business and operations of the Company and awareness of a Director’s responsibilities and obligations. Directors are continually updated on statutory, regulatory and business developments and participate in continuous professional development in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities and to develop and refresh their knowledge and skills.

CORPORATE GOVERNANCE REPORT

COMMITTEES OF THE BOARD

The Board is responsible for leadership and promoting the success of the Company by directing and overseeing the Company's affairs. In addition, the Board is responsible for overseeing the corporate governance and financial reporting of the Company, and for reviewing the effectiveness of the Company's system of risk management and internal controls. To assist it in fulfilling its duties, the Board has established four board committees: (1) the audit committee; (2) the compensation committee; (3) the corporate governance committee; and (4) the reserves committee.

Audit Committee

The Board established an audit committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee, which have been revised from time to time since then. The audit committee currently consists of four members, namely Ms. Joanne Yan (Chairperson of the audit committee and INED), Mr. Yi He (INED), Mr. Raymond S. Fong (INED) and Mr. Jeff Jingfeng Liu (INED).

In compliance with Rule 3.21 of the Listing Rules, at least one member of the audit committee possesses appropriate professional qualifications in accounting or related financial management expertise in discharging the responsibilities of the audit committee.

All members have sufficient experience in reviewing audited financial statements as aided by the independent external auditors of the Company whenever required.

The primary duties of the audit committee are to review and supervise the Company's financial reporting process, risk management and internal control systems, to monitor the integrity of the Company's financial statements and financial reporting, and to oversee the audit process.

There were several meetings of the audit committee held during the year ended December 31, 2017. The following is a summary of the work performed by the audit committee during 2017:

- reviewed the scope of the audit of the consolidated financial statements of the Company for the year ended December 31, 2017, as well as the fee proposal for such audits;
- reviewed the condensed interim consolidated financial statements for the periods ended March 31, 2017, June 30, 2017 and September 30, 2017, respectively;
- reviewed the assessment of the design and testing of the effectiveness of the Company's internal control systems and risk management as performed by the external auditors/consultant;
- reviewed capital budgets as presented by senior management on an annual basis; and
- reported to the Board on the meetings of the audit committee.

During the year under review, the audit committee also performed duties in connection with the proposed appointment and re-appointment of independent external auditors, the review of the Company's relationship with its independent external auditors, and the annual review of its systems for financial reporting, internal controls and risk management.

Corporate Governance Committee

The Board established a corporate governance committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee, which have been revised from time to time since then. The corporate governance committee currently consists of five members, namely Mr. Kwok Ping Sun (Chairman of the corporate governance committee and ED), Mr. Michael J. Hibberd (NED), Mr. Raymond S. Fong (INED), Mr. Yi (David) He (INED), and Ms. Joanne Yan (INED).

The primary duties of the corporate governance committee in respect of nominations include, but are not limited to, making recommendations to the Board relating to the appointment or re-appointment of Directors and senior officers, succession planning for Directors, in particular the Executive Chairman and the Non-Executive Vice-Chairman, and the Chief Executive Officer and assessing the independence of Independent Non-Executive Directors. Further, the corporate governance committee has certain duties in respect of other corporate governance matters, including, to consider, develop and review the Company's corporate governance principles, practices and processes and to make recommendations to the Board, to develop, review and monitor the training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to review and monitor the code of conduct and compliance manual applicable to employees and directors and to review the Company's compliance with the Code as set out in the Listing Rules. Going forward, the corporate governance committee is expected to meet at least once a year to discharge its responsibilities.

The corporate governance committee is chaired by the Executive Chairman and is comprised of one Non-Executive Director and three Independent Non-Executive Directors. The Company is of the view that the current members of the corporate governance committee are influential and important in setting the key direction of the Company at this time. The Company also encourages all Board members to sit on at least one of the Company's committees. The expertise of the current members of this committee is important to the Company.

Compensation Committee

The Company established a compensation committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee. The compensation committee currently consists of four members, namely Mr. Kwok Ping Sun (Chairman of the compensation committee and ED), Mr. Raymond S. Fong (INED), Ms. Xijuan Jiang (NED) and Ms. Joanne Yan (INED). The compensation committee currently consists of a majority of Independent Non-Executive Directors and is chaired by an Executive Director.

The primary duties of the compensation committee are to determine the policy for the remuneration of the Executive Directors, to assess performance of the Executive Directors, to approve the terms of the Executive Directors' service contracts, to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, as well as to determine the specific remuneration packages of all Executive Directors and certain members of senior management of the Company.

Reserves Committee

The Company established a reserves committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee. The reserves committee currently consists of three members, namely Mr. Qiping Men (Chairman of the reserves committee and ED), Mr. Raymond S. Fong (INED), and Mr. Jeff Jingfeng Liu (INED).

CORPORATE GOVERNANCE REPORT

The primary duties of the reserves committee include, but are not limited to, reviewing and approving management's recommendations for the appointment of independent evaluators, reviewing procedures for providing information to the independent evaluators, meeting with management and the independent evaluators to review the reserves data and reports, recommending to the Board whether to accept the content of the independent evaluators' report, reviewing procedures for reporting on other information associated with oil sands producing activities and generally reviewing all public disclosure of estimates of reserves.

The reserves committee meets at least once annually to review procedures relating to the disclosure of information with respect to oil and gas activities, including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities requirements.

MEETINGS OF THE BOARD AND COMMITTEES OF THE BOARD

There were 25 meetings of the Board held during the year ended December 31, 2017. The following is the attendance record of the Board and committee meetings held during the year, which can be attended either in person or through electronic means of communication:

2017	Board of Directors	Reserves Committee	Audit Committee	Compensation Committee	Corporate Governance Committee
Directors at December 31, 2017					
Mr. Kwok Ping Sun	13/16	–	–	1/1	1/1
Mr. Michael J. Hibberd	16/16	–	–	–	1/1
Mr. Qiping Men	16/16	–	–	–	–
Ms. Gloria Pui Yun Ho ⁽¹⁾	5/5	–	–	–	–
Mr. Hong Luo	12/16	–	–	–	–
Ms. Linna Liu ⁽²⁾	10/10	–	–	–	–
Ms. Xijuan Jiang	16/16	–	–	1/1	–
Mr. Raymond S. Fong	15/16	1/1	5/6	1/1	1/1
Mr. Yi He	16/16	–	6/6	–	1/1
Mr. Jeff Jingfeng Liu ⁽³⁾	5/5	–	3/6	–	–
Ms. Joanne Yan	16/16	–	6/6	1/1	1/1
2017 Former Directors					
Dr. Qi Jiang ⁽⁴⁾	10/12	1/1	–	–	–
Mr. Gerald F. Stevenson ⁽⁵⁾	10/12	1/1	3/6	–	–
Mr. Jianzhong Chen ⁽⁶⁾	4/4	–	–	–	–

Notes:

- Ms. Ho commenced as ED on June 27, 2017. Prior to her directorship appointment, she attended 11 Board meetings during the year under review.
- Ms. Liu commenced as NED on April 6, 2017. The attendance hereto includes reporting representative attendance.
- Mr. Liu commenced as INED on June 27, 2017.
- Dr. Jiang ceased to be a Director on June 27, 2017.
- Mr. Stevenson ceased to be a Director on June 27, 2017.
- Mr. Chen ceased to be director on April 6, 2017. The attendance hereto includes reporting representative attendance.

Each INED has provided the Company with an annual confirmation of his/her independence, and the Company considers each of the INEDs to be independent under Rule 3.13 of the Listing Rules.

HEALTH, SAFETY AND ENVIRONMENT (“HSE”)

Sunshine executives and management believe in the HSE principle of “Safety First” and the Company has a good safety record. In 2017, the Company continued to emphasize improvements in the field safety monitoring system for preventing workplace injuries. We are committed to protecting and promoting the safety and well being of our employees, contractors, communities and the environment. We aim for safe and reliable operations where any risks which compromise the health and safety of workers are identified and addressed.

The Board also reviews and assesses the Company’s health, safety and environment processes and controls.

SHAREHOLDER COMMUNICATION POLICY

The Company introduced a shareholder communication policy on April 1, 2012 in compliance with Code Provision E.1.4.

REMUNERATION OF DIRECTORS

The following is a general description of the emolument policy of the Company, as well as the basis of determining the emoluments payable to the Directors.

The compensation of Directors is determined by the Board, which receives recommendations from the compensation committee. All of our EDs, INEDs and remaining NEDs received Directors’ fees and Board committee retainers in 2017.

Under our current compensation arrangements, each of our EDs, NEDs, INEDs and senior management are eligible to receive compensation in the form of cash and/or bonuses and are eligible to receive option grants.

As at the date of this annual report, the Company does not have any employee long-term incentive plans. If the Company decide to establish any such plans in the future, recommendations from the compensation committee will be taken into account and such plans will comply with applicable provisions of the Listing Rules.

Remuneration of the Directors (including retainers, fees, salaries, discretionary bonuses, and other benefits including share based payments) was approximately \$7.2 million for the year ended December 31, 2017 (2016–\$6.8 million).

Please refer to the Audited Consolidated Financial Statements included in this Annual Report for additional details on remuneration of Directors.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own policy (the "Corporate Disclosure and Trading Policy") for securities transactions by Directors and employees who are likely to be in possession of unpublished price-sensitive information of the Company. This policy is no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry of all Directors, the Board confirmed that all Directors have complied with the Corporate Disclosure and Trading Policy during the accounting period covered by this Annual Report.

The interests of Directors' and Chief Executive Officer in the Company's Common Shares as at December 31, 2017 are set out in the "Directors' Report" section of this Annual Report.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The auditors' statement about their reporting responsibilities for the Company's consolidated financial statements is set out in the Independent Auditors' Report included in this Annual Report.

The fees in relation to the audit and related services for the year ended December 31, 2017 provided by PricewaterhouseCooper LLP, the independent external auditors of the Company, were as follows:

Nature of services rendered	Fees paid/ payable
Audit fees	\$308,000
Total	\$308,000

Audit fees were incurred in connection with the following services:

- Audit of the Company's annual financial statements;
- Audit of the financial statements of Sunshine Oilsands (Hong Kong) Ltd.;
- Reviews of the Company's interim financial statements;
- Audit of tax compliance, tax advice, and tax planning;
- Audit of private placements and prospectus filings; and
- Additional audit procedures related to the 2017 audit.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges that it holds responsibility for:

1. Overseeing the preparation of the financial statements of the Company with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Company; and
2. Selecting suitable accounting policies and applying them consistently with the support of reasonable judgment and estimates.

The Board ensures the timely publication of the financial statements of the Company. Management provides explanations and information to the Board to enable it to make an informed assessment of the financial and other information to be approved. The Board is responsible for ensuring that the Company keeps proper accounting records, for safeguarding the Company's assets and for taking reasonable steps for the prevention of fraud and other irregularities.

The Board strives to ensure a balanced, clear and understandable assessment of the Company's financial reporting, including annual and interim reports, other price-sensitive announcements, and other financial disclosures required under the Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirements and applicable accounting standards.

The Board is aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. For the year ended December 31, 2017, the Company reported a net loss of \$281.9 million (2016 – \$73.3 million). At December 31, 2017, the Company had a working capital deficiency of \$368.6 million (2016 – \$319.3 million) and an accumulated deficit of \$988.9 million (2016 – \$707.1 million). The Company's ability to continue as a going concern is dependent on continuing operation and development in West Ells, marketing bitumen blends at favorable prices, 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board places great importance on evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board would oversee management in the design, implementation and monitoring of the risk management and internal control systems.

The Company reviews and monitors the adequacy and effectiveness of risk management and internal control systems on an ongoing basis so as to ensure that Group's risk management and internal control systems has been conducted effectively. Since the Company does not have an internal audit function, the Company engaged an external consultant to complete testing of the design and effectiveness of its internal control systems for the year ended December 31, 2017. The audit plans are discussed and agreed to for each year with the audit committee of the Company.

CORPORATE GOVERNANCE REPORT

Each year the audit committee and the Board reviews the overall effectiveness of the Company's risk management and internal control systems. The Board has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended December 31, 2017. In conducting such review, the Board has: (i) reviewed the Company's internal control activities during the year and discussed such activities and the results thereof with the Chief Executive Officer and Chief Financial Officer; (ii) reviewed and discussed the scope and results of the annual audit with the Company's independent external auditors; and (iii) reviewed with management the results of the Company's reporting process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board is not aware of any material defects in the effectiveness of risk management and internal control systems. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, but can only provide reasonable and not absolute assurance against material misstatement or loss.

ANNUAL ASSESSMENT

A review of the effectiveness of the Company's risk management and internal control systems covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review was conducted at the end of 2017 with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Company's internal control system against the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The Company has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the audit committee and the Board. The audit committee and the Board considered the risk management and internal control systems effective and adequate.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDER INFORMATION

The Company complies with the requirements of Securities and Futures Ordinance ("SFO") and the Listing Rules. The Company discloses insider information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbors as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Company would immediately disclose the information to the public. The Company is committed to ensuring that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balance way, which requires equal disclosure of both positive and negative facts.

CORPORATE SECRETARY

During the year ended December 31, 2017, the Corporate Secretary, who is an employee of the Company, has taken no less than 15 hours of relevant professional training and has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company strives to maintain a high level of transparency in its communications with shareholders and investors. The Company keeps a constant dialogue with the investment community through Company visits, conference calls and information sessions to communicate the Company's business strategies, developments and goals.

The Company's annual and interim reports, stock exchange filings, press releases and other information and updates on the Company's operations and financial performance are available for public access on the Company's website, www.sunshineoilsands.com, and certain of these documents are also available on the website of the SEHK, www.hkexnews.hk, and on the website of SEDAR, www.sedar.com.

The Company has not made any changes to its constitutional documents during the year ended December 31, 2017.

The Company encourages its shareholders to attend the Company's general meetings to communicate their views and concerns to the Board directly so as to ensure a high level of accountability and also to stay informed of the Company's strategies, developments and goals.

The next annual general meeting of shareholders of the Company is tentatively scheduled to be held in June 2018 in Hong Kong.

SHAREHOLDERS RIGHTS

Under the Business Corporations Act (Alberta) (the "ABCA"), the directors of a corporation are authorized to call meetings of shareholders. The ABCA establishes two categories of meetings of shareholders: (i) annual meetings, and (ii) special meetings.

There are also specific circumstances in which shareholders may call special meetings where the directors fail to do so. Pursuant to the applicable provisions of the ABCA, registered or beneficial holders of not less than five per cent (5%) of the issued voting shares may requisition the directors to call a meeting of shareholders. If the directors do not call a meeting within 21 days after receiving the requisition, a shareholder who signed the requisition may call the meeting. The ABCA mandates that such shareholders be reimbursed for expenses incurred in requisitioning, calling, and holding the meeting unless the shareholders resolve otherwise at the meeting.

Shareholders are encouraged to consult their own tax advisors regarding the tax consequences to them for share transactions.

Shareholders can submit enquiries to the Board and the Chief Executive Officer by mail or by phone to the contact information set out in the "Corporate Information" section of this Annual Report.

DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present their report together with the audited consolidated financial statements of the Company and its wholly-owned subsidiaries for the year ended December 31, 2017 together with comparative figures for the corresponding period in 2016.

PRINCIPAL ACTIVITIES

The Company is engaged in the exploration for, and the development of, oil properties for the production of bitumen in the Athabasca oil sands region in Alberta, Canada.

BUSINESS REVIEW

The business review for the year and further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Company and its subsidiaries (the "Group") and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this Annual Report. The discussions in the Management Discussion and Analysis section form part of this Directors' Report.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's wholly-owned subsidiaries as at December 31, 2017, are set out in note 1 to the consolidated financial statements. The activities of the wholly-owned subsidiaries of the Company as at December 31, 2017 are set out in the table below:

Name	Country of incorporation	Principal country of operation	Issued and fully paid share capital	Principal activities
Sunshine Oilsands (Hong Kong) Ltd.	Hong Kong, China	Hong Kong	HK\$100	Management services
Boxian Investments Limited	British Virgin Islands	Hong Kong	US\$1	Pursuing new investment opportunities
Sang Xiang Petroleum & Chemical (Shanghai) Limited	China	China	RMB\$100	Pursuing new investment opportunities

RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

The results of the Company for the financial year ended December 31, 2017 are set out in the consolidated statements of operations and comprehensive loss included in this Annual Report. The Board of Directors has not recommended, declared or paid any distributions for the financial year ended December 31, 2017.

SEGMENT INFORMATION

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

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during the year ended December 31, 2017 are set out in note 8 to the consolidated financial statements.

RESERVES

Details of movements in the Company's reserves during the year ended December 31, 2017 are set out in the consolidated statement of changes in shareholders' equity.

DISTRIBUTABLE RESERVES

As at December 31, 2017, reserves available for distribution to shareholders amounted to approximately \$357 million as shown in the statutory accounts of the Company and calculated in accordance with the Company's articles of incorporation.

DIVIDENDS

The Company has not declared or paid any dividends in respect of the year ended December 31, 2017.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of incorporation, by-laws of the Company or the Alberta Business Corporations Act.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended December 31, 2017 are set out in the consolidated statement of changes in shareholders' equity in this Annual Report.

DIRECTORS

As at December 31, 2017 and up to the date of this Annual Report, the composition of the Board of Directors was as follows:

Executive Directors

Mr. Kwok Ping Sun (*Chairman*)
 Mr. Qiping Men (*Chief Executive Officer*)
 Ms. Gloria Pui Yun Ho (*Chief Financial Officer*)

Non-Executive Directors

Mr. Michael J. Hibberd (*Vice-Chairman*)
 Mr. Hong Luo (re-designated as Non-Executive Director on March 19, 2018)
 Ms. Xijuan Jiang
 Ms. Linna Liu

Independent Non-Executive Directors

Mr. Raymond S. Fong
 Ms. Joanne Yan
 Mr. Yi (David) He
 Mr. Jeff Jingfeng Liu

DIRECTORS' REPORT

Biographical details of the Directors of the Company as at the date of this report are included in this Annual Report in the section headed "Directors and Senior Management".

On April 6, 2017, Mr. Jianzhong Chen of BOCGI resigned from the Board and was replaced by Ms. Linna Liu of BOCGI.

Both Dr. Qi Jiang and Mr. Gerald F. Stevenson did not stand for re-election at the annual general meeting of the Company held on June 27, 2017 ("AGM"), accordingly their terms as Directors of the Company expired at the conclusion of that AGM. Each of Dr. Qi Jiang and Mr. Gerald F. Stevenson has confirmed that he has no disagreement with the Board and there are no matters that need to be brought to the attention of the shareholders of the Company. Save as disclosed above, there are no matters that need to be brought to the attention of the shareholders of the Company.

Mr. Jeff Jingfeng Liu and Ms. Gloria Pui Yun Ho were newly elected as Independent Non-Executive Director and Executive Director of the Company, respectively, at the AGM.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of the 2017 interim report of the Company.

Directors' Service Contracts

None of the Directors who are to be proposed for re-election at the 2018 annual general meeting has or is proposed to have a service contract that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

Save for the related party transactions set out in note 21 to the consolidated financial statements and the transactions disclosed under the heading "Transactions with Related Parties" in the section entitled "Management Discussion and Analysis" of this Annual Report, no Director or a director of any entity connected with a Director has or had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company and its subsidiaries for the year ended December 31, 2017.

Indemnity and Insurance

Each of the directors of the Company has entered into an indemnity agreement with the Company. Pursuant to such indemnity agreements, among other things, the Company has agreed to indemnify such directors in connection with costs and expenses arising from claims relating to such director's service as a director of the Company or actions or omissions performed in such director's capacity as a director, provided that such director acted honestly and in good faith with a view to the best interests of the Company and, in the case of certain criminal or administrative actions, such director had reasonable grounds for believing that his conduct was lawful.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN COMMON SHARES AND SHARE OPTIONS

As at December 31, 2017, the interests and short positions of the Directors and the chief executive of the Company in the Common Shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Common Shares

Name	Company	Nature of Interest	Number of Common Shares held	Approximate % interest in the Common Shares
Kwok Ping Sun	Sunshine Oilsands Ltd.	Direct/Indirect	1,658,897,000	29.48%
Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	104,174,685	1.85%
Hong Luo	Sunshine Oilsands Ltd.	N/A	–	0.00%
Qiping Men	Sunshine Oilsands Ltd.	Direct	1,049,541	0.02%
Gloria Pui Yun Ho ⁽¹⁾	Sunshine Oilsands Ltd.	N/A	–	0.00%
Linna Liu ⁽²⁾	Sunshine Oilsands Ltd.	N/A	–	0.00%
Xijuan Jiang	Sunshine Oilsands Ltd.	Direct/Indirect	300,000	0.01%
Raymond S. Fong	Sunshine Oilsands Ltd.	Direct/Indirect	9,250,621	0.16%
Yi He	Sunshine Oilsands Ltd.	Direct	1,600,000	0.03%
Joanne Yan	Sunshine Oilsands Ltd.	N/A	–	0.00%
Jeff Jingfeng Liu ⁽³⁾	Sunshine Oilsands Ltd.	N/A	600,000	0.01%

Note

1. Ms. Ho commenced as an executive director on June 27, 2017.
2. Ms. Liu commenced as a non-executive director on April 6, 2017.
3. Mr. Liu commenced as an independent non-executive director on June 27, 2017.

SHARE OPTION SCHEME

Pre-IPO Stock Option Plan:

The Company's pre-IPO stock option plan is for Directors, officers, employees, consultants and advisors of the Company. These options vest over a period of up to three years from the date of grant. Following the IPO closing on March 1, 2012, no further options were issued under the Pre-IPO Stock Option Plan. As at December 31, 2017, all Pre-IPO Stock Option have expired.

DIRECTORS' REPORT

Post-IPO Stock Option Plan:

On January 26, 2012, the Post-IPO Stock Option Plan was approved and adopted by shareholders at the Company's annual general meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Company's IPO and listing on the SEHK, March 1, 2012. The maximum number of Common Shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding Common Shares, less the maximum aggregate number of Common Shares underlying the options ("Options") already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the Annual and Special Meeting of Shareholders on May 7, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan will have an exercise price that is determined by the Board of Directors but is not less than the higher of: the closing price on the Toronto Stock Exchange (the "TSX") or the SEHK (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date.

On September 30, 2015, the Corporation completed a voluntary delisting from the TSX. As a result, the Board of Directors now determines the exercise price of the Options based solely on the trading date of the Common Shares of the Corporation from the SEHK only.

The aggregate number of shares that may be issued under the Scheme is 389,998,689, representing 10% of Shares outstanding when the Scheme Mandate Limit was last refreshed on June 23, 2015 (and representing approximately 6.56% of the Shares outstanding as at the date of this report).

Details of the Post-IPO Stock Option Plan are listed below:

Purpose of the Post-IPO Stock Option Plan:	The purpose of the Post-IPO Stock Option Plan is to attract skilled and experienced personnel, to incentivise them to remain with the Company and to motivate them to strive for the future development and expansion of the Company by providing them with the opportunity to acquire equity interests in the Company.
Participants:	Any Directors, officers and employees of the Company, the Company's subsidiaries and any other persons selected by the Board in its discretion.
Total number of securities available for issue under the scheme	160,389,722 (representing 2.70 % of the issued shares of the Company as at the date of the Annual Report)
Maximum entitlement of Participant:	The aggregate number of shares issued or to be issued to any one person under the Post-IPO Stock Option Plan at any time in any 12 month period (together with any shares underlying Options granted during such period under any other share option scheme) must not exceed 1% of shares issued and outstanding at the time, unless shareholder approval has been sought and obtained in accordance with the provisions of the Post-IPO Stock Option Plan (and with the person receiving such Option grant abstaining from voting).
Period within which the shares must be taken up under an Option:	The Option period shall not expire later than 10 years from the date of grant.
Minimum period, if any, for which an Option must be held before it can be exercised:	The minimum period can be in a range from immediately upon grant to two years.

The amount payable, if any, on application or acceptance of the Option and the period within which payments or calls must be made or loans for such purposes must be paid: Not applicable.

Remaining life of the Post-IPO Stock Option Plan: The Post-IPO Stock Option Plan shall be valid and effective for the period commencing from January 26, 2012. There is currently no expiration date for the Post-IPO Stock Option Plan.

Details of the Options granted pursuant to the Post-IPO Stock Option Plan during the financial year ended December, 31 2017 are as follows:

Date of grant:	April 3, 2017	June 29, 2017
Exercise price of Options granted:	CAD\$0.05 (HK\$0.31 equivalent) per share	CAD\$0.044 (HK\$0.261 equivalent) per share
Number of Options granted:	9,584,379 (representing approximately 0.16% of the issued shares of the Company as at the date of the Annual Report)	4,484,679 (representing approximately 0.08% of the issued shares of the Company as at the date of the Annual Report)
Validity period of the Options:	Five (5) years	Five (5) years

The accounting policy adopted for the granted Options above follows the policy adopted under the Post-IPO Stock Option Plan for calculating the exercise price.

As of December 31, 2017, the options held by Directors and the chief executive of the Company was as follows:

Stock Options

Name	Company	Nature of Interest	Number of stock options held	Approximate % interest in the Options
Kwok Ping Sun	Sunshine Oilsands Ltd.	Direct	46,679,000	23.88%
Michael Hibberd	Sunshine Oilsands Ltd.	Direct	46,679,000	23.88%
Hong Luo	Sunshine Oilsands Ltd.	Direct	23,000,000	11.77%
Gloria Ho ⁽¹⁾	Sunshine Oilsands Ltd.	Direct	5,000,000	2.56%
Qiping Men	Sunshine Oilsands Ltd.	Direct	22,555,556	11.54%
Raymond Fong	Sunshine Oilsands Ltd.	Direct	2,500,000	1.28%
Yi He	Sunshine Oilsands Ltd.	Direct	2,500,000	1.28%
Joanne Yan	Sunshine Oilsands Ltd.	Direct	2,500,000	1.28%
Linna Liu ⁽²⁾	Sunshine Oilsands Ltd.	Direct	–	–
Jingfang Liu ⁽³⁾	Sunshine Oilsands Ltd.	Direct	–	–
Xijuan Jiang	Sunshine Oilsands Ltd.	Direct	1,000,000	0.51%

Note

- Ms. Ho commenced as an executive director on June 27, 2017.
- Ms. Liu commenced as a non-executive director on April 6, 2017.
- Mr. Liu commenced as an independent non-executive director on June 27, 2017.

DIRECTORS' REPORT

Save as disclosed above, as at December 31, 2017, none of the Directors or the chief executive of the Company have or are deemed to have interests or short positions in the Common Shares, underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Company under Section 352 of Part XV of the SFO, or as otherwise notifiable to the Company and the SEHK pursuant to the Model Code.

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executive and other executive management of Company the during 2017.

Name	December 31, 2016	Granted	Exercised	Forfeited	Expired	December 31, 2017
Kwok Ping Sun	46,679,000	–	–	–	–	46,679,000
Michael Hibberd	58,439,000	–	–	–	(11,760,000)	46,679,000
Hong Luo	23,000,000	–	–	–	–	23,000,000
Gloria Ho ⁽¹⁾	5,000,000	–	–	–	–	5,000,000
Qiping Men	22,555,556	–	–	–	–	22,555,556
Raymond Fong	1,510,000	1,500,000	–	–	(510,000)	2,500,000
Yi He	1,000,000	1,500,000	–	–	–	2,500,000
Joanne Yan	1,000,000	1,500,000	–	–	–	2,500,000
Linna Liu ⁽²⁾	–	–	–	–	–	–
Jingfang Liu ⁽³⁾	–	–	–	–	–	–
Xijuan Jiang	1,000,000	–	–	–	–	1,000,000
Jianzhong Chen ⁽⁴⁾	1,000,000	–	–	–	–	1,000,000
Qi Jiang ⁽⁵⁾	30,000,000	–	–	(30,000,000)	–	–
Gerald Stevenson ⁽⁶⁾	1,510,000	1,500,000	–	–	(510,000)	2,500,000
Sub-total for Directors	192,693,556	6,000,000	–	(30,000,000)	(12,780,000)	155,913,556
Sub-total for other share option holders	66,046,913	8,069,058	–	(32,604,342)	(1,989,660)	39,521,969
Total	258,740,469	14,069,058	–	(62,604,342)	(14,769,660)	195,435,525

Notes:

- Ms. Ho commenced as an executive director on June 27, 2017.
- Ms. Liu commenced as a non-executive director on April 6, 2017.
- Mr. Liu commenced as an independent non-executive director on June 27, 2017.
- Mr. Chen ceased as director on April 6, 2017.
- Mr. Jiang ceased as director on June 27, 2017.
- Mr. Stevenson ceased as director on June 27, 2017.

Other than the holdings disclosed in the tables above, none of the Directors or Chief Executive Officer of the Company or their related parties had any interests or short positions in any Common Shares of the Company or its associated corporations as at December 31, 2017. Please refer to our consolidated financial statements (note 14) included in this Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2017.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITION IN COMMON SHARES AND UNDERLYING SHARES

As at December 31, 2017, so far as the Directors are aware, the following shareholder (other than the Directors or chief executives of the Company) had 5% or more beneficial interests or short positions in the issued Common Shares and underlying shares of the Company which were recorded in the register required to be maintained by the Company under Section 336 of Part XV of the SFO:

Name	Nature of Interest	Common Shares Held	Approximate % Interest in the Common Shares ⁽¹⁾
Tseung Hok Ming	Beneficial	295,893,656	5.26%

Note:

(1) All positions are long positions.

EMOLUMENT POLICY

The emolument policy of executives of the Company is set up by the compensation committee on the basis of merit, qualifications and competence. The emolument policy for the rest of employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the Directors of the Company is decided by the compensation committee and approved by the Board of Directors, having regard to comparable market statistics.

The Company also has a stock option plan for Directors, officers, employees, consultants and advisors (the "Stock Option Plan"). The options vest over a period ranging up to four years from the date of grant. Since March 1, 2012, options granted under the Stock Option Plan follow the granting rules of the Company's Post-IPO Stock Option Plan as disclosed above under the section entitled "Share Option Scheme".

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2017, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company or its subsidiaries.

PENSION SCHEMES

The Company does not have a pension scheme.

DIRECTORS' REPORT

LOAN

As at December 31, 2017, the Company had senior secured notes that are considered current liabilities. On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a forbearance agreement in respect of the Notes (the "Agreement"). Subsequent to December 31, 2016, the Company negotiated reinstatement of the Agreement, on March 21, 2017, the Company entered into a Forbearance Reinstatement Agreement ("FRA") with the Forbearing holders, and on September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). Details of the classification of the notes as a current liability are set out in Note 10 of the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Protection and preservation of the environment is a fundamental operating principle of the Company. Its projects and operations adhere strictly to established Standard Operating Procedures and Practices (SOPs) for all situations and conditions which exist. Ongoing environmental monitoring, assessments, and audits ensure the Company's objectives are met with respect to environmental stewardship.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATION

For the year ended December 31, 2017, the Company was not aware of any non-compliance with any relevant laws and regulations that have a significant impact on it. The Company's operations have met regulatory requirements and corporate standards.

RELATIONSHIPS WITH STAKEHOLDERS

The Company has actively cultivated, established, and maintained positive relationships with First Nations and Metis peoples in the region who are proximate to or interested in its projects. The Company provides project updates and meets with the various aboriginal communities on a regular basis to discuss impacts of its operations and pro-actively deal with any issues. The Company also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Company's alignment with their rules, regulations, and expectations.

MAJOR CUSTOMERS AND SUPPLIERS

Customers

The West Ells nameplate capacity is 5,000 bbl/day. With the startup of operations and production of West Ells Project, the Company will continuously looking to expand its base of customers to obtain the best possible price for its product.

Suppliers

The largest supplier accounted for 9% of the Company's purchases. The five largest suppliers accounted for 32% of the Company's purchases for the year ended December 31, 2017.

To the knowledge of the Directors, none of the Directors, their close associates, or any shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had a beneficial interest in the Company's five largest suppliers.

CONNECTED TRANSACTIONS

For the twelve months ended December 31, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.6 million (December 31, 2016 – \$0.1 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, control or direction of 1,658,897,000 common shares of the Company which represents approximately 29.5% of the Company's outstanding common shares. During the twelve months ended December 31, 2017 and year 2016, Mr. Kwok Ping Sun purchased securities of the Company (Note 13) and loaned the Company funds on an unsecured basis.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan. As at December 31, 2017, total loan amount was HKD \$33.7 million (approximately CAD \$5.4 million). As at February 13, 2018, all the Loan and interests were paid in full.

On January 19, 2016, the Company signed an unsecured loan agreement with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The loan was considered Permitted Debt under the Company's Notes as long as it did not exceed USD \$5.0 million. The loan had an interest rate of 6.0% per annum, could be drawn up to HKD \$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement was signed effective from April 14, 2016 with Tai Feng. This loan had the same interest rate and repayment terms as the loan on January 19, 2016, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loans on January 19 and April 14, 2016 (principle and interest) were converted into equity through private placements. For further details, please refer to Note 13.

Please refer to the section headed "Message to Shareholders" and the heading entitled "Purchase, Sale or Redemption of Sunshine's Listed Securities" in the Management Discussion and Analysis section of this report for further details.

Save as disclosed above, for the year ended December 31, 2017, the Company has not entered into any connected transactions (as defined under the Listing Rules).

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken by the Company during the year in the ordinary course of business are set out in Note 21 to the consolidated financial statements. None of these transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at the date of this annual report, the Company has maintained the prescribed public float of more than 25% of the issued share capital required under the Listing Rules during the period from the Listing Date to the date of this report.

DIRECTORS' REPORT

INDEPENDENT AUDITOR

The financial statements were audited by PricewaterhouseCoopers LLP, who shall be eligible for re-appointment, and a resolution to this effect will be proposed at the forthcoming AGM of the Company.

On behalf of the Board

Kwok Ping Sun

Chairman of the Board

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 months and year ended December 31, 2017 is dated March 18, 2018, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2017. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

OVERVIEW

Sunshine is a holder and a developer of Athabasca region oil sands resources with approximately 1.24 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2017 was approximately 2.07 billion barrels, a 0.14 billion barrels decrease from the December 31, 2016 resource evaluation. The Company also has 264 million barrels of proved plus probable ("2P") reserves and 373 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2017. 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 approximately 1 million acres of oil sands and petroleum and natural gas leases, the Company has significant commercial development potential. Phase I (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 has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

The Company's focus is on evaluating and developing its oil sands assets with the completion and operation of the 5,000 bbls/day Phase I commercial West Ells (the "Project"). When financing is available, the Company is planning to add an additional 5,000 barrels per day Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at December 31, 2017, the Company had invested approximately \$1.28 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at December 31, 2017, the Company had \$3.7 million in cash.

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 continuing operations and development in West Ells, marketing bitumen blends at favorable prices, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATIONAL UPDATE

West Ells

On March 1, 2017, the Company achieved a key milestone. The Project commenced commercial production. Hence, effective March 1, 2017, the Company started recording revenue, royalties, expenses and depletion of the West Ells Project.

For twelve month ended December 31, 2017, the average bitumen production was 1,940 bbls/day. Diluent is blended at an 18.1% volumetric rate with the bitumen as part of the production process to create the marketable "Dilbit" blend product, and the average dilbit sales volume was 2,324 bbls/day.

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 2018. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, additional significant 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 by the joint venture partner due to low oil prices.

SUMMARY OF QUARTERLY RESULTS

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

(\$ thousands except per share & bbl/d)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Bitumen sales (bbl/d) ¹	2,253	1,781	1,732	1,796	-	-	-	-
Petroleum sales	13,209	8,781	8,907	3,005	-	-	-	-
Royalties	126	36	86	20	-	-	-	-
Diluent	4,395	2,551	2,723	1,090	-	-	-	-
Transportation	4,391	3,272	3,264	1,153	-	-	-	-
Operating costs	5,733	5,547	6,360	2,216	-	-	-	-
Finance cost	21,095	11,687	13,974	14,467	13,901	18,606	15,415	14,598
Net loss	228,443	12,761	19,479	21,169	23,237	26,564	20,736	2,773
Per share – basic and diluted	0.04	0.00	0.00	0.00	0.01	0.01	0.00	0.00
Capital expenditures ²	860	1,815	1,862	4,679	8,690	12,038	6,939	9,822
Total assets	785,356	980,947	991,696	1,000,484	997,590	985,274	974,881	964,751
Working capital deficiency ³	368,593	343,136	333,488	325,736	319,304	314,853	311,024	298,144
Shareholders' equity	356,569	581,687	593,820	603,580	607,455	603,348	595,286	601,577

1. Bitumen sales volume for 2017 Q1 only for the one month ended March 31, 2017.
2. Included payments for exploration and evaluation, property, plant and equipment.
3. The working capital deficiency includes the USD current portion of the Notes converted to CAD at each period end exchange rate.

RESULTS OF OPERATIONS

Operating Netback

(\$ thousands, except \$ / bbl)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Realized bitumen revenue	\$ 8,814	\$ –	\$ 23,143	\$ –
Transportation	(4,391)	–	(12,080)	–
Royalties	(126)	–	(268)	–
Net bitumen revenue	4,297	–	10,795	–
Operating costs	(5,733)	–	(19,856)	–
Operating cash flow	\$ (1,436)	\$ –	\$ (9,061)	\$ –
Operating netback (\$ / bbl)	\$ (6.94)	\$ –	\$ (15.56)	\$ –

1. Operating netback calculation for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.
2. Operating cash flow is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The Operating cash flow for the three and twelve months ended December 31, 2017 was a net loss of \$1.4 million and \$9.1 million respectively. The main contributing factor to the loss are the operating costs. The majority of the operating costs at West Ells are fixed in nature, as a result, the operating costs per barrel of production should be reduced as production continues to ramp up at West Ells.

Bitumen Production

(Barrels/day)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Bitumen production	2,352	–	1,940	–

1. Bitumen production for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Bitumen production for the three and twelve months ended December 31, 2017 averaged 2,352 Bbls/day and 1,940 Bbls/d respectively compared to Nil production for the three and twelve months ended December 31, 2016. On March 1, 2017, the West Ells Phase 1 commenced commercial production and this is the fourth quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bitumen Sales

(Barrels/day)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Bitumen sales	2,253	–	1,903	–

1. Bitumen sales for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Bitumen sales for the three and twelve months ended December 31, 2017 averaged 2,253 Bbls/day and 1,903 Bbls/day respectively compared to Nil sales for the three and twelve months ended December 31, 2016. On March 1, 2017, the West Ells Phase 1 commenced commercial production and this is the fourth quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.

Petroleum Sales, net of royalties

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Petroleum sales	\$ 13,209	\$ –	\$ 33,902	\$ –
Royalties	(126)	–	(268)	–
Petroleum sales, net of royalties	\$ 13,083	\$ –	\$ 33,634	\$ –
\$/bbl	\$ 63.13	\$ –	\$ 57.75	\$ –

1. Petroleum sales, net of royalties for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Petroleum sales, net of royalties for the three and twelve months ended December 31, 2017 was \$13.1 million and \$33.6 million respectively compared to Nil revenues for the three and twelve months ended December 31, 2016. On March 1, 2017, the West Ells Phase 1 commenced commercial production and this is the fourth quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.

Bitumen Realization

(\$ thousands, except \$/bbl)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Dilbit revenue	\$ 13,209	\$ –	\$ 33,902	\$ –
Diluent blended ¹	(4,395)	–	(10,759)	–
Realized bitumen revenue ²	\$ 8,814	\$ –	\$ 23,143	\$ –
\$/bbl	\$ 42.53	\$ –	\$ 39.74	\$ –

1. Bitumen realization calculation for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.
2. Realized bitumen revenue is used to calculate operating netbacks.

Bitumen realization represents the Company's realized petroleum revenue ("Dilbit revenue"), net of diluent expenses. Dilbit revenue represents the Company's revenue from its bitumen produced at West Ells project blended with purchased diluent. The cost of blending is impacted by the amount of diluent required and the Company's cost of purchasing and transporting the diluent. A portion of the diluent expense is effectively recovered in the sales price of the blended product.

During the three and twelve months ended December 31, 2017, the Company's bitumen realization revenue was \$8.8 million and \$23.1 million, respectively. This is the fourth quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.

Diluent Costs

(\$ thousands, except \$/bbl and blend ratio)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Diluent	\$ 4,395	\$ –	\$ 10,759	\$ –
\$/bbl	\$ 21.21	\$ –	\$ 18.47	\$ –
Blend ratio	16.4%	–	18.1%	–

1. Diluent purchased for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Diluent costs for the three and twelve months ended December 31, 2017 was \$4.4 million and \$10.8 million, respectively. At West Ells, Diluent is blended with the bitumen as part of the production process to create a marketable dilbit blend product at West Ells. Diluent expense is mainly impacted by the required amount, cost of purchasing and transporting diluent, Canadian and U.S. benchmark pricing, the timing of diluent inventory purchases and changes in value of the Canadian dollar relative to the U.S. dollar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Transportation

(\$ thousands, except \$/bbl)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Transportation	\$ 4,391	\$ –	\$ 12,080	\$ –
\$/bbl	\$ 21.19	\$ –	\$ 20.74	\$ –

1. Transportation costs for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

The Company's transportation expense in the three and twelve months ended December 31, 2017 was \$4.4 million and \$12.1 million respectively. Transportation cost includes trucking costs for dilbit and pipeline terminals fees.

Operating Costs

(\$ thousands, except \$/bbl)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Energy operating costs	\$ 1,243	\$ –	\$ 5,618	\$ –
Non-energy operating costs	4,490	–	14,238	–
Operating costs	\$ 5,733	\$ –	\$ 19,856	\$ –
\$/bbl	\$ 27.67	\$ –	\$ 34.10	\$ –

1. Operating costs for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

The Company's total operating costs was \$5.7 million and \$19.9 million for the three and twelve months ended December 31, 2017 respectively. Operating costs comprised of the sum of non-energy operating costs and energy cost. Non-energy operating cost represent production-related operating activities excluding energy operating cost.

Energy operating costs represent the cost of natural gas for the production of steam and power at the West Ell's facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative Costs

(\$ thousands)	Three months ended December 31,					
	2017			2016		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 2,248	\$ –	\$2,248	\$ 2,866	570	2,296
Rent	580	–	580	512	165	347
Legal and audit	404	–	404	118	–	118
Other	815	–	815	202	31	171
Total	\$ 4,047	\$ –	\$4,047	\$ 3,698	766	2,932

(\$ thousands)	Twelve months ended December 31,					
	2017			2016		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 8,820	\$232	\$8,588	\$ 9,486	2,488	6,998
Rent	2,313	151	2,162	2,062	707	1,355
Legal and audit	1,340	–	1,340	1,873	–	1,873
Other	3,673	17	3,656	3,052	90	2,962
Total	\$ 16,146	\$400	\$15,746	\$ 16,473	3,285	13,188

Effective March 1, 2017, the Company ceased the capitalization of portions of the general and administrative costs. The Company capitalized a portion of the general and administrative costs related to capital investment for the first two months of the year. For the three and twelve months ended December 31, 2017, the amount of \$Nil and \$0.4 million were capitalized compared to \$0.8 million and \$3.3 million for the same period in 2016, respectively.

Finance Costs

(\$ thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Interest expense on senior notes	\$ 13,966	\$ 8,453	\$ 40,459	\$ 28,855
Interest expense on other loans	115	–	123	136
Amortization of financing transaction costs and discount	–	–	–	10,046
Redemption/yield maintenance premium	5,813	4,736	17,695	19,055
Financing related costs	–	338	978	3,170
Other interest expense	911	287	873	298
Unwinding of discounts on provisions	290	87	1,095	960
Finance costs	\$ 21,095	\$ 13,901	\$ 61,223	\$ 62,520

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three month period ended December 31, 2017, finance costs increased by \$7.2 million as a result of an increase of \$5.5 million attributed to interest on the senior notes, an increase of \$1.1 million for the yield maintenance premium and an increase of \$0.6 million relating to other interest expense compared to the same period in 2016.

Finance costs for the year ended December 31, 2017 decreased by \$1.3 million primarily due to \$10 million decrease of the amortization of financing transaction costs on the senior notes, a decrease of \$1.4 million related to the yield maintenance premium, and a decrease of \$2.2 million in financing related costs, offset by an increase \$11.6 million related to the interest on the senior notes and an increase of \$0.7 million related to other interest expense compared to the same period in 2016.

CONTRACT PROVISION

As at December 31, 2017, the Company had fully recognized a liability provision related to obligations under a drilling rig contract (December 31, 2016 – \$0.6 million). The \$0.6 million represents the maximum obligation required if the drilling rig was not utilized over the remaining term of the contract, which ended in the fourth quarter of 2016.

On April 5, 2017 the Company entered into debt settlement agreement with the Creditor, the Company agreed to allot and issue the Shares to the creditor as full and final settlement. On April 13, 2017, all the conditions of the placing were fulfilled and all of the provision and partial debt with the creditor was settled.

SHARE-BASED COMPENSATION

(\$ thousands)	Three months ended December 31,					
	Total	2017		Total	2016	
		Capitalized	Expensed		Capitalized	Expensed
Share-based compensation	<u>408</u>	<u>-</u>	<u>408</u>	<u>1,093</u>	<u>82</u>	<u>1,011</u>

(\$ thousands)	Twelve months ended December 31,					
	Total	2017		Total	2016	
		Capitalized	Expensed		Capitalized	Expensed
Share-based compensation	<u>3,260</u>	<u>16</u>	<u>3,244</u>	<u>4,362</u>	<u>559</u>	<u>3,803</u>

Share-based compensation expense for the three months and year ended December 31, 2017 was \$0.4 million and \$3.2 million compared to \$1.0 million and \$3.8 million for the same period in 2016, respectively. The fair value of share-based compensation 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.

The Company capitalizes a portion of the share-based compensation using the same methodology associated with capitalized salaries and benefits. For the three months and year ended December 31, 2017, the Company capitalized \$Nil and \$0.02 million, compared to \$0.1 million and \$0.6 million of share-based compensation for the same periods in 2016.

DEPLETION, DEPRECIATION AND IMPAIRMENT

(\$ thousands, except \$/bbl)	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
Depletion and impairment	\$ 200,050	\$ –	\$ 209,183	\$ –
Depreciation	182	126	553	547
Depletion, depreciation and impairment	\$ 200,232	\$ 126	\$ 209,736	\$ 547
Depletion (\$/bbl)	\$ 24.37	\$ –	\$ 24.35	\$ –

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at the time, the Company ceased capitalization of petroleum revenue, royalties, diluent, transportation, and operating expenses relating to West Ells Project I and has included these amounts in the statement of comprehensive income (loss) for the twelve months ended December 31, 2017. The depletion rate is based on the unit-of-production.

The Company also commenced recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the twelve months ended December 31, 2017. Depletion, depreciation and impairment expense was \$200.2 million and \$0.1 million for each of the three month period ended December 31, 2017 and 2016. For the year ended December 31, 2017 depletion, depreciation and impairment expense was \$209.7 million compared to \$0.5 million for the same period in 2016.

Exploration & Evaluation (“E&E”) Asset Impairment

As at December 31, 2017, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. Significant indicators of impairment were downward revision of reserves and resources, decline in forward commodity benchmark prices and the Company’s inability to make any capital expenditures other than West Ells property under the debt agreement. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal (“FVLCD”) and value in use (“VIU”). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life.

Recoverable amount was based on the FVLCD model using the median land sale price of \$270 per acre, observed in Northern Alberta for similar properties. For the year ended December 31, 2017, the Company recognized an impairment loss of \$25 million (December 31, 2016 - \$Nil) on its E&E Assets as the estimated recoverable amount exceeded the carrying value. The recoverable amount was estimated to be \$268.2 million.

A 0.5% change in the land sale prices would change the impairment by \$1.3 million. The FVLCD model used is considered a level 2 fair value technique based on the observable and unobservable inputs used.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Property, Plant & Equipment ("PP&E") Asset Impairment

As at December 31, 2017 the Company reviewed the West Ells CGU for circumstances that indicated the asset may be impaired due to a significant and sustained decline in forward commodity benchmark prices, compared to those at December 31, 2016, resulting in an impairment of \$ 170 million (December 31, 2016 - \$Nil). The recoverable amount was estimated to be \$395.5 million.

The recoverable amount of the West Ells CGU as at December 31, 2017 was determined using FVLCD model, with the assumptions that follow. Reserves value was based on the Company's December 31, 2017 reserves report as prepared by its independent reserve engineer. In assessing FVLCD the recoverable amount of the West Ells CGU was estimated based on proved plus probable reserves using a post-tax discount rate of 8.5 percent. Key input estimates used in the determination of cash flows from West Ells reserves included: quantities of reserves and future production; deferred income tax liability; forward commodity pricing as prepared by independent reserve engineer; development, operating and abandonment costs; royalty obligations and discount and risk rates. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used.

The results of the Company's impairment assessment on West Ells are sensitive to changes in any of the key input estimates of which changes could decrease or increase the recoverable amount of the asset and result in additional impairment charges or recovery of those impairments. A 0.5% increase or decrease in the discount rate would increase the impairment by \$34.5 million or decrease the impairment by \$31.1 million, respectively.

Assuming all the same assumptions as above, a 1% increase or decrease in the forecast commodity prices would decrease the impairment by \$13 million or increase the impairment by \$7 million, respectively.

The FVLCD calculation assumes the following forecast oil prices in, which were based on the December 31, 2017 price decks prepared by the Company's independent reserve engineer.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @Cushing \$/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2018	2	0.790	59.00	48.89	39.63	2.20
2019	2	0.790	59.00	53.16	45.71	2.54
2020	2	0.800	60.00	56.25	49.81	2.88
2021	2	0.810	63.00	59.26	52.89	3.24
2022	2	0.820	66.00	62.20	55.89	3.47
2023	2	0.830	69.00	65.06	58.82	3.58
2024	2	0.830	72.00	68.67	62.43	3.66
2025	2	0.830	75.00	72.29	66.05	3.73
2026	2	0.830	77.33	75.10	68.86	3.80
2027	2	0.830	78.88	76.96	70.72	3.88
2028+	escalate oil, gas and product prices at 2% per year thereafter					

INCOME TAXES

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three months and year ended December 31, 2017 and 2016. 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 December 31, 2017, the Company had total available tax deductions of approximately \$1.48 billion, with unrecognized tax losses that expire between 2028 and 2037.

LIQUIDITY AND CAPITAL RESOURCES

	2017	2016
Working capital deficiency	\$ 368,593	\$ 319,304
Shareholders' equity	356,569	607,455
	<u>\$ 725,162</u>	<u>\$ 926,759</u>

- Senior secured notes are considered current as at December 31, 2017 and have been included in the working capital deficit as the conditions to extend the maturity date to August 1, 2018 on September 26, 2017.

On August 8, 2014, the Company completed an offering of USD \$200 million senior secured notes (the "Notes") at an offering price of USD \$938.01 per USD \$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD \$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 would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of \$19.1 million due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD \$22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Forebearing Holders. The Forebearing Holders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD \$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD \$5.2 million was paid;
- Sunshine agreed to repurchase and the Forebearing Holders agreed to sell up to USD \$8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Forebearing Holders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On September 26, 2017, the Company and the Forebearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of USD \$0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of USD \$1.8 million by October 30, 2017; Repayment of USD \$5.0 million and USD \$15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD \$5.0 million within 45 days after signing the Amended FA;
- The Company is to obtain financing of USD \$5.0 million every quarter.

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD \$1.8 million on October 30, 2017 and USD \$5.0 million on February 1, 2018.

As Sunshine did not meet the aforementioned covenants and payment requirements, the senior notes contractually becomes due. The outstanding balance is presented as a current liability as at December 31, 2017.

The noteholders have not requested early repayment of the senior notes as of the date when these financial statements were approved by the Board of Directors.

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 reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

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 December 31, 2017, the Company had incurred unsecured third party debt for a total of US\$2.8 million (CAD\$3.4 million equivalent) and incurred related party debt for a total of US\$4.3 million (CAD\$5.3 million equivalent) which is considered Permitted Debt.

The Company has presented the Notes and Loans as a current liability on Consolidated Statements of Financial Position as at December 31, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At December 31, 2017, the Company had incurred \$18.2 million (USD \$14.5 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.2545 CAD.

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 because of financial market conditions generally, or as a result of conditions specific to the Company.

For the three months and year ended December 31, 2017, the Company reported a net loss of \$228.4 million and \$281.9 million, respectively. At December 31, 2017, the Company had a working capital deficiency of \$368.6 million including senior notes of \$249.2 million and an accumulated deficit of \$989.0 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 55% as at December 31, 2017, compared to 39% as at December 31, 2016.

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, HK dollars and/or Chinese renminbi.

For the three months and year ended December 31, 2017, the Company had a foreign exchange loss of \$1.2 million and a foreign exchange gain of \$17.1 million compared to a \$5.3 million loss and \$6.8 million gain in the same period in 2016. The change in foreign exchange for the three month period ended December 31, 2017, was primarily due to a \$1.3 million unrealized loss on translation of the US denominated Notes, offset by a gain of \$0.1 million on USD and HKD denominated cash balances and HKD denominated loans. The \$17.1 million foreign exchange gain for the year ended December 31, 2017, was primarily due to a \$17.5 million unrealized gain on translation of the US denominated Notes, a \$0.1 million unrealized gain on the HKD denominated loans, a \$0.1 million unrealized loss on USD and HKD denominated accounts payable and offset by a \$0.4 million unrealized loss on USD, HKD and CNY denominated cash balances.

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 months and year ended December 31, 2017. 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 held at December 31, 2017 would have been impacted by \$Nil and the carrying value of the senior notes at December 31, 2017 would have been impacted by \$2.5 million. At December 31, 2017, the Company held approximately USD \$0.01 million or \$0.013 million of cash, using the December 31, 2017 exchange rate of \$1US= \$1.2545CAD, as cash and cash equivalents in the Company's US bank account.

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 December 31, 2017 would have been impacted by approximately \$0.02 million. At December 31, 2017, the Company held, after recent equity closings, approximately HKD \$13.0 million or \$2.1 million using the December 31, 2017 exchange rate of \$1CAD=\$6.2291HKD, as cash in the Company's HKD bank account.

For Chinese renminbi amounts, exchange rates to convert from Chinese renminbi to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2017 would have been impacted by approximately Nil. At December 31, 2017, the Company held approximately CNY \$1.9 million or \$0.4 million using the December 31, 2017 exchange rate of \$1CAD=\$5.1867CNY, as cash in the Company's CNY bank account.

MANAGEMENT'S DISCUSSION AND ANALYSIS

At December 31, 2016, the Company had \$3.2 million classified as a deposit, with the Alberta Energy Regulator for the Licensee Liability Rating Program (on February 22, 2017, \$3.2 million was refunded in total).

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 December 31, 2017, the Company's estimated commitments are as follows:

	Total	2018	2019	2020	2021	2022	Thereafter
Repayment of debt ¹	\$ 249,199	249,199	-	-	-	-	-
Interest payments on debt ²	18,025	18,025	-	-	-	-	-
Redemption premium ³	12,373	12,373	-	-	-	-	-
Loans ⁴	8,806	8,806	-	-	-	-	-
Drilling, other equipment and contracts	2,241	2,241	-	-	-	-	-
Lease rentals ⁵	7,856	1,403	1,395	1,395	1,395	1,253	1,015
Office leases	4,369	3,009	1,074	286	-	-	-
	<u>\$ 302,869</u>	<u>295,056</u>	<u>2,469</u>	<u>1,681</u>	<u>1,395</u>	<u>1,253</u>	<u>1,015</u>

1. Principal amount of Notes based on the period end exchange rate of \$1US=\$1.2545 CAD and a maturity date of August 1, 2018.
2. Based on 10% on principal amount and 2.5% on the principal amount of the notes held by the Forbearing Holders per annum and a maturity date of August 1, 2018 less the interest accrued to December 31, 2017, at the period end exchange rate of \$1USD = \$1.2545 CAD.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2018 less the 2.333% premium accrued to December 31, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2018. Using the period end exchange rate of \$1USD = \$1.2545 CAD this premium amounts to \$18,187. At December 31, 2017, the Company had the option to redeem the Notes at 2.333% of the aggregate principal amount of the Notes outstanding which amounts to \$5,814 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2018 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. Principal of loans and its interest (3% and 6% on principal amount of the debt) based on the period exchange rate of \$1 HKD = \$0.1605 CAD.
5. 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 year ended December 31, 2017 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

For the twelve months ended December 31, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.6 million (December 31, 2016 – \$0.1 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,658,897,000 common shares of the Company which represents approximately 29.5% of the Company's outstanding common shares. During the twelve months ended December 31, 2017 and year 2016, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13) and has loaned the Company funds on an unsecured basis.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan. As at December 31, 2017, total loan amount was HKD \$33.7 million (approximately CAD \$5.4 million). As at February 13, 2018, all the Loan and interests were paid in full.

On January 19, 2016 the Company signed an unsecured loan agreement with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The loan was considered Permitted Debt under the Company's Notes as long as it did not exceed USD \$5.0 million. The loan had an interest rate of 6.0% per annum, could be drawn up to HKD \$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the loan on January 19, 2016, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loans on January 19 and April 14, 2016 (principle and interest) were converted into equity through private placements (Note 13).

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 December 31, 2017, the Company did not have any other off-balance sheet arrangements.

SUBSEQUENT EVENTS

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD \$0.272 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$22.0 million (approximately CAD \$3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$0.7 million (approximately CAD \$0.1 million), was incurred in relation to the Closing.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD \$0.244 per share (approximately CAD \$0.039 per common share), for gross proceeds of HKD \$30.0 million (approximately CAD \$4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD \$0.244 per share for gross proceeds of HKD \$28.3 million (approximately CAD \$4.6 million) of this subscription agreement. In addition, a placing commission of HKD \$0.9 million (approximately CAD \$0.14 million), was incurred in relation to the Closing. The subscription agreement expired on the date of this announcement and hence the time to close the remaining 6,147,500 class "A" common shares has lapsed.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan. As at December 31, 2017, total loan amount was HKD \$33.7 million (approximately CAD \$5.4 million). As at February 13, 2018, all the Loan and interests were paid in full.

On February 28, 2018 the Company entered into a subscription agreement for a total of 102,436,500 class "A" common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$25.1 million (approximately CAD \$4.1 million). A payment of CAD \$455,005 cash is to be made. On March 14, 2018 the Company completed the closing of this subscription agreement and a payment of \$227,502 was made with the remaining balance due within 45 days after signing the agreement. This subscription agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018 the Company entered into a subscription agreement for a total of 20,393,059 class "A" common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$5.0 million (approximately CAD \$0.8 million). On March 14, 2018 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with independent third parties.

CHANGES IN ACCOUNTING POLICIES

The Company adopted IAS 12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. This adoption of the amended standard did not have an impact on the Company's consolidated financial statements.

The Company adopted IAS 7, Statement of Cash Flows as part of its disclosure initiative to evaluate changes in liabilities arising from financing activities and includes changes arising from cash flows and non-cash changes. Additional disclosures for changes in liabilities arising from financing activities are included in Note 27 to the Company's consolidated financial statements and no comparative information has been presented as allowed by IAS 7.

CRITICAL ACCOUNTING POLICIES

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of these amendments on the Company's consolidated financial statements.

In May 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively in full or by applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments" which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company is currently assessing and quantifying the potential effect on its financial statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company's financial statements.

On December 8, 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration which is a new interpretation and clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. This is effective for annual periods beginning on or after January 1, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company's critical accounting estimates are those estimates having a significant impact on the Company's financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change.

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 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.

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of these consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2017. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgement.

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.

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 of disposal. 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 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. As a result of anticipated long project lives, usually of 20 to 50 years, these estimates may change substantially due to, among other things: (i) changes in regulations; (ii) changes and advancement in technology; (iii) changes in costs and cost structure; and (iv) adjustments to the termination time of a project.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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, 2016, which is available at www.sedar.com. The 2016 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 2017 Annual Information Form is available at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

Qiping Men, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, 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. As at December 31, 2017, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer evaluated the design and operation of the Company's DC&P. Based on that evaluation, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer concluded that the Company's DC&P were effective as at December 31, 2017.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Qiping Men, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, 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); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR at December 31, 2017, and concluded that the Company's ICFR are effective at December 31, 2017 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the three months and year ended December 31, 2017 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.

ADVISORY SECTION

Non-GAAP Measures

This MD&A includes references to certain measures which do not have a standardized meaning as prescribed by IFRS, such as "operating netbacks" and "funds from operations", and therefore are considered non-GAAP measures. These non-GAAP measures are commonly used in the oil and gas industry and the Company believes including such measures is useful to investors. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to measures calculated in accordance with IFRS as, given the non-standardized meanings, these measures may not be comparable to similar measures presented by other issuers.

Cash Flow Used in Operations

Cash flow used in operations is non-GAAP measure utilized by the Company to analyze operating performance and liquidity. Cash flow used in operations excludes the net change in non-cash operating working capital and decommissioning expenditures while the IFRS measurement "Net cash used in operating activities" includes these items. Cash flow used in operations is reconciled to Net cash used in operating activities in the table below:

	Three months ended December 31,		Twelve months ended December 31,	
	2017	2016	2017	2016
(\$ thousands)				
Net cash used in operating activities	(6,789)	(2,005)	(22,629)	(8,827)
Add (deduct)				
Net change in non-cash operating working capital items	1,304	(954)	(2,184)	(4,820)
Cash flow used in operations	(5,485)	(2,959)	(24,813)	(13,647)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the SEHK and not shown elsewhere in this report 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.

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 complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

MOVEMENTS IN STOCK OPTIONS

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Company during the period ended December 31, 2017.

Name	December 31, 2016	Granted	Exercised	Forfeited	Expired	December 31, 2017
Kwok Ping Sun	46,679,000	–	–	–	–	46,679,000
Michael Hibberd	58,439,000	–	–	–	(11,760,000)	46,679,000
Hong Luo	23,000,000	–	–	–	–	23,000,000
Gloria Ho ⁽¹⁾	5,000,000	–	–	–	–	5,000,000
Qiping Men	22,555,556	–	–	–	–	22,555,556
Raymond Fong	1,510,000	1,500,000	–	–	(510,000)	2,500,000
Yi He	1,000,000	1,500,000	–	–	–	2,500,000
Joanne Yan	1,000,000	1,500,000	–	–	–	2,500,000
Linna Liu ⁽²⁾	–	–	–	–	–	–
Jingfang Liu ⁽³⁾	–	–	–	–	–	–
Xijuan Jiang	1,000,000	–	–	–	–	1,000,000
Jianzhong Chen ⁽⁴⁾	1,000,000	–	–	–	–	1,000,000
Qi Jiang ⁽⁵⁾	30,000,000	–	–	(30,000,000)	–	–
Gerald Stevenson ⁽⁶⁾	1,510,000	1,500,000	–	–	(510,000)	2,500,000
Sub-total for Directors	192,693,556	6,000,000	–	(30,000,000)	(12,780,000)	155,913,556
Sub-total for other share option holders	66,046,913	8,069,058	–	(32,604,342)	(1,989,660)	39,521,969
Total	258,740,469	14,069,058	–	(62,604,342)	(14,769,660)	195,435,525

- Ms. Ho commenced as an executive director on June 27, 2017.
- Ms. Liu commenced as a non-executive director on April 6, 2017.
- Mr. Liu commenced as an independent non-executive director on June 27, 2017.
- Mr. Chen ceased as director on April 6, 2017.
- Mr. Jiang ceased as director on June 27, 2017.
- Mr. Stevenson ceased as director on June 27, 2017.

Please refer to our consolidated financial statements included in the 2017 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended December 31, 2017 was \$0.05 (year ended December 31, 2016 – \$0.09). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2017 and 2016. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 14.64% to 14.76% for the twelve months ended December 31, 2017.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the year ended December 31, 2017 and December 31, 2016.

Input Variables	Year ended December 31, 2017	Year ended December 31, 2016
Grant date share price (\$)	0.044-0.05	0.058-0.10
Exercise Price (\$)	0.044-0.05	0.058-0.10
Expected volatility (%)	73.22-74.72	66.40-70.70
Option life (years)	3.76-3.79	3.76-4.07
Risk-free interest rate (%)	0.93-1.23	0.56-0.88
Expected forfeitures (%)	14.64-14.76	13.39-14.65

PURCHASE, SALE OR REDEMPTION OF SUNSHINE'S LISTED SECURITIES

Class "A" Common Shares

General mandate

On January 17, 2017 the Company entered into a subscription agreement for a total of 60,000,000 class "A" common shares at a price of HKD \$0.262 per share (approximately CAD \$0.045 per common share), for gross proceeds of HKD \$15.7 million (approximately CAD \$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$117,900 (approximately CAD \$0.02 million), was incurred in relation to the Closing. Approximately 95% of the net proceeds used as funds for development of existing business including funding operation costs and approximately 5% as general working.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class "A" common shares at a price of HKD \$0.283 per share (approximately CAD \$0.050 per common share), for gross proceeds of HKD \$70 million (approximately CAD \$12.1 million). On March 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$525,000 (approximately CAD \$0.09 million), was incurred in relation to the Closing. Of which, approximately 60% of the net proceeds used for repayment of yield maintenance premium and forbearance fee in relation to the Forbearance Reinstatement Agreement ("FRA") signed on March 21, 2017; approximately 35% used as funds for development of existing business including funding operation costs and approximately 5% as general working capital including payment of legal fees incurred for forbearance reinstatement of the Company's Senior secured Notes.

On December 28, 2016, the Company entered into a subscription agreement with for a total of up to 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HKD \$0.29 per Common Share or approximately CAD \$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD \$43.5 million (approximately CAD \$7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD \$0.29 (approximately CAD \$0.050 per Common Share). The Company received total gross proceeds of HKD \$11.6 million (approximately CAD \$2.0 million). The subscription agreement expired on the date of this announcement and no further closings occurred. Of which, approximately 95% of the net proceeds used as funds for development of existing business including funding operation costs and approximately 5% as general working capital.

On April 5, 2017 the Company entered into a subscription agreement for a total of 140,874,000 class "A" common shares at a price of HKD \$0.241 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$33.95 million (approximately CAD \$5.8 million). On April 13, 2017 the Company completed the closing of this subscription agreement. The entire net proceeds was used to offset the indebtedness that Sunshine owed to its trade creditor.

On May 31, 2017 the Company entered into a subscription agreement for a total of 67,511,000 class "A" common shares at a price of HKD \$0.237 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$15.88 million (approximately CAD \$2.74 million). On June 7, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$122,314 (approximately CAD \$0.02 million), was incurred in relation to the Closing. Approximately 95% of the net proceeds used as funds for development of existing business including funding operation costs and approximately 5% as general working capital.

On October 18, 2017 the Company entered into a subscription agreement for a total of 8,934,755 class "A" common shares at a price of HKD \$0.257 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$2.3 million (approximately CAD \$0.4 million). On October 31, 2017 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with an independent third party and the entire net proceeds was to offset the indebtedness that Sunshine owed to its trade creditor.

On December 14, 2017 the Company entered into a subscription agreement for a total of 60,606,500 class "A" common shares at a price of HKD \$0.264 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$16 million (approximately CAD \$2.6 million). On December 20, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$482,319 (approximately CAD \$0.08 million), was incurred in relation to the Closing. Approximately 95% of the net proceeds used as funds for development of existing business including funding operation costs and approximately 5% as general working capital.

Subsequent to December 31, 2017, on January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD \$0.272 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$22.0 million (approximately CAD \$3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$0.7 million (approximately CAD \$0.1 million), was incurred in relation to the Closing. Approximately 92% of the net proceeds used for repayment of shareholder's loan and 8% as general working capital.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD \$0.244 per share (approximately CAD \$0.039 per common share), for gross proceeds of HKD \$30.0 million (approximately CAD \$4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD \$0.244 per share for gross proceeds of HKD \$28.3 million (approximately CAD \$4.6 million) of this subscription agreement. In addition, a placing commission of HKD \$0.9 million (approximately CAD \$0.14 million), was incurred in relation to the Closing. The subscription agreement expired on the date of this announcement and hence the time to close the remaining 6,147,500 class "A" common shares has lapsed. Amount the net proceeds received, an approximately 48% of which has been used for repayment of shareholder's loan and 52% used as general working capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On February 28, 2018 the Company entered into a subscription agreement for a total of 102,436,500 class "A" common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$25.1 million (approximately CAD \$4.1 million). A payment of CAD \$455 thousand cash is to be made. On March 14, 2018 the Company completed the closing of this subscription agreement and the payment was made. This subscription agreement was entered into for settlement of indebtedness with two independent third parties. The entire net proceeds was used to offset the indebtedness that Sunshine owed to its trade creditors.

On March 2, 2018 the Company entered into a subscription agreement for a total of 20,393,059 class "A" common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$5.0 million (approximately CAD \$0.8 million). On March 14, 2018 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with an independent third party. The entire net proceeds was used to offset the indebtedness that Sunshine owed to its trade creditor.

Specific mandate

On June 5, 2017, the Company entered into a subscription agreement with Prime Union at the issue price of HKD \$0.234 per Common Shares (approximately CAD \$0.041 per Common Share) for an aggregate cash consideration of HK \$106.5 million (approximately CAD \$18.5 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 Company. The subscription would be issued pursuant to the Special Mandate to be sought from the Independent Shareholders at Special General Meeting ("SGM"). On August 4, the SGM was held in Sunshine Hong Kong office, and the subscription agreement resolution was duly passed as an ordinary resolution. The subscription agreement lapsed on August 28, 2017.

SHARES OUTSTANDING

As at March 18, 2018, the Company had 5,948,393,172 Class "A" common shares issued and outstanding.

EMPLOYEES

As at December 31, 2017, the Company has a total of 52 full-time employees. For the three and twelve months ended December 31, 2017, the total staff costs amounted to \$2.2 million and \$8.6 million, respectively.

DIVIDENDS

The Company has not declared or paid any dividends in respect of the twelve months period ended December 31, 2017 (twelve months period ended December 31, 2016 – \$Nil).

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 months and year ended December 31, 2017, together with comparative figures for the corresponding periods in 2016 as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
Assets		
<i>Current assets</i>		
Cash	\$ 3,671	\$ 13,635
Trade and other receivables	4,932	2,654
Prepaid expenses and deposits	1,110	5,054
	9,713	21,343
<i>Non-current assets</i>		
Exploration and evaluation	268,227	291,716
Property, plant and equipment	507,416	684,531
	775,643	976,247
	\$ 785,356	\$ 997,590
Liabilities and Shareholders' Equity		
<i>Current liabilities</i>		
Trade and accrued liabilities	\$ 120,316	\$ 71,526
Provisions	—	581
Loans	3,452	—
Shareholder loans	5,339	—
Senior Notes	249,199	268,540
	378,306	340,647
<i>Non-current liabilities</i>		
Provisions	50,481	49,488
	428,787	390,135
Net current assets	(368,593)	(319,304)
Total assets less current liabilities	407,050	656,943
Shareholders' Equity		
Share capital	1,275,008	1,247,302
Reserve for share-based compensation	70,522	67,262
Deficit	(988,961)	(707,109)
	356,569	607,455
	\$ 785,356	\$ 997,590

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
<i>Revenues</i>				
Petroleum sales, net of royalties	\$ 13,083	\$ –	\$ 33,634	\$ –
Other income	–	8	10	48
	<u>13,083</u>	<u>8</u>	<u>33,644</u>	<u>48</u>
<i>Expenses</i>				
Diluent	4,395	–	10,759	–
Transportation	4,391	–	12,080	–
Operating expense	5,733	–	19,856	–
Depletion, depreciation and impairment	200,232	126	209,736	547
General and administrative	4,047	2,932	15,746	13,188
Finance costs	21,095	13,901	61,223	62,520
Share-based compensation	408	1,011	3,244	3,803
Foreign exchange (gains)/losses	1,225	5,275	(17,148)	(6,842)
Contract provision expense	–	–	–	142
	<u>\$ 241,526</u>	<u>\$ 23,245</u>	<u>\$ 315,496</u>	<u>\$ 73,358</u>
Loss before income taxes	(228,443)	(23,237)	(281,852)	(73,310)
Income taxes	–	–	–	–
Net loss and comprehensive loss for the period attributable to equity holders of the Company	<u>\$ (228,443)</u>	<u>\$ (23,237)</u>	<u>\$ (281,852)</u>	<u>\$ (73,310)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>

Notes

1. Basis of Preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The 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 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 ("C\$"), which is the functional currency of the Company.

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiaries, Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong") and Sang Xiang Petroleum & Chemical (Shanghai) Limited (Sunshine Shanghai). Control is achieved when the Company has the power to govern the financial and operating policies of an entity 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. On March 24, 2017, Sunshine Shanghai was incorporated in China 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:

	December 31, 2017	December 31, 2016
Trade	\$ 1,548	\$ 1,434
Accruals and other receivables	3,377	1,053
Goods and services taxes receivable	7	167
	<hr/> \$ 4,932 <hr/>	<hr/> \$ 2,654 <hr/>

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 year:

	December 31, 2017	December 31, 2016
0 – 30 days	\$ 119	\$ –
31 – 60 days	–	1
61 – 90 days	3	11
>90 days	1,426	1,422
	<hr/> \$ 1,548 <hr/>	<hr/> \$ 1,434 <hr/>

As at December 31, 2017, included in the Company's trade receivables were debtors with an aggregate carrying amount of \$1.5 million (December 31, 2016 – \$1.4 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 year:

	December 31, 2017	December 31, 2016
Trade		
0 – 30 days	\$ 2,163	\$ 4,514
31 – 60 days	117	1,343
61 – 90 days	222	750
> 91 days	21,004	20,734
	<hr/> 23,506 <hr/>	<hr/> 27,341 <hr/>
Accrued liabilities	96,810	44,185
	<hr/> \$ 120,316 <hr/>	<hr/> \$ 71,526 <hr/>

MANAGEMENT'S DISCUSSION AND ANALYSIS

5. Dividends

The Company has not declared or paid any dividends in respect of the three months and year ended December 31, 2017 (2016 – \$Nil).

6. Income Taxes

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

	December 31, 2017	December 31, 2016
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	\$ (109,512)	\$ (119,980)
Decommissioning liabilities	13,630	13,362
Share issue costs	1,705	1,754
Non-capital losses	258,818	193,894
Debt	2,945	–
Deferred tax benefits not recognized	(167,586)	(89,030)
	<u>\$ –</u>	<u>\$ –</u>

The Company's non-capital losses of \$958,584 (December 31, 2016 – \$718,126), expire between 2028 and 2037.

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 months and year ended December 31, 2017. 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 \$1.48 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 months and year ended December 31, 2017.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements for the Company for the year ended December 31, 2017, were reviewed by the Audit Committee of the Company, audited by the Company's external auditor and approved by the Board.

PUBLICATION OF INFORMATION

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

OUTLOOK

Sunshine sees a brightening outlook as international oil prices stabilize and steadily increase and heavy price differential narrow. The Company will continue to focus on cost controls and on carefully improving production performance as SAGD chambers mature, which will increase production at West Ells.



March 18, 2018

To the Shareholders of Sunshine Oilsands Ltd.

We have audited the accompanying consolidated financial statements of Sunshine Oilsands Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Oilsands Ltd. and its subsidiaries as at December 31, 2017 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Sunshine Oilsands Ltd.'s ability to continue as a going concern.

OTHER MATTER

Without modifying our opinion, we draw attention to note 26 to the financial statements, which explains that certain comparative information in the cash flow statement for the year ended December 31, 2016 has been restated. The financial statements of Sunshine OilSands Ltd. for the year ended December 31, 2016 prior to the restatement of the comparative information) were audited by another auditor who expressed an unmodified opinion on those financial statements on March 21, 2017.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

		As at December 31,	
	Notes	2017	2016
Assets			
<i>Current assets</i>			
Cash	4	\$ 3,671	\$ 13,635
Trade and other receivables	5	4,932	2,654
Prepaid expenses and deposits	6	1,110	5,054
		<u>9,713</u>	<u>21,343</u>
<i>Non-current assets</i>			
Exploration and evaluation	7	268,227	291,716
Property, plant and equipment	8	507,416	684,531
		<u>775,643</u>	<u>976,247</u>
		<u>\$ 785,356</u>	<u>\$ 997,590</u>
Liabilities and Shareholders' Equity			
<i>Current liabilities</i>			
Trade and accrued liabilities	9	\$ 120,316	\$ 71,526
Provisions	11	–	581
Loans	10	3,452	–
Shareholders loans	21	5,339	–
Senior notes	10	249,199	268,540
		<u>378,306</u>	<u>340,647</u>
<i>Non-current liabilities</i>			
Provisions	11	50,481	49,488
		<u>428,787</u>	<u>390,135</u>
Shareholders' Equity			
Share capital	13	1,275,008	1,247,302
Reserve for share-based compensation		70,522	67,262
Deficit		(988,961)	(707,109)
		<u>356,569</u>	<u>607,455</u>
		<u>\$ 785,356</u>	<u>\$ 997,590</u>

Going concern (Note 2)

Commitments and contingencies (Note 23)

Subsequent events (Note 25)

Approved by the Board

“Joanne Yan”

Independent Non-Executive Director

“Qiping Men”

Executive Director

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in thousands of Canadian dollars, except for per share amounts)

		For the year ended December 31,	
	Notes	2017	2016
Petroleum sales, net of royalties	15	\$ 33,634	\$ –
Other income	16	10	48
		33,644	48
<i>Expenses</i>			
Diluent		10,759	–
Transportation		12,080	–
Operating		19,856	–
Depletion, depreciation and impairment	7,8	209,736	547
General and administrative	17	15,746	13,188
Finance costs	18	61,223	62,520
Stock based compensation	14.4	3,244	3,803
Foreign exchange (gains)/losses	20.6	(17,148)	(6,842)
Contract provision expense	11.2	–	142
		\$ 315,496	\$ 73,358
Loss before income taxes		(281,852)	(73,310)
Income taxes	12	–	–
Net loss and comprehensive loss for the year attributable to equity holders of the Company		\$ (281,852)	\$ (73,310)
Basic and diluted loss per share	19	\$ (0.05)	\$ (0.02)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian dollars)

	Notes	Share capital	Reserve for share based compensation	Deficit	Total
Balance, December 31, 2016		\$ 1,247,302	\$ 67,262	\$ (707,109)	\$ 607,455
Net loss and comprehensive loss for the year		-	-	(281,852)	(281,852)
Issue of common shares	13.1	28,311	-	-	28,311
Share issue costs, net of deferred tax (\$Nil)	13.1	(605)	-	-	(605)
Recognition of share-based compensation	14.4	-	3,260	-	3,260
Balance, December 31, 2017		\$ 1,275,008	\$ 70,522	\$ (988,961)	\$ 356,569
Balance, December 31, 2015		\$ 1,174,987	\$ 62,910	\$ (633,799)	\$ 604,098
Net loss and comprehensive loss for the period		-	-	(73,310)	(73,310)
Issue of common shares	13.1	72,695	-	-	72,695
Share issue costs, net of deferred tax (\$Nil)	13.1	(405)	-	-	(405)
Recognition of share-based compensation	14.4	-	4,362	-	4,362
Issue of shares upon exercise of share options	13.1	15	-	-	15
Reserve transferred on exercise of stock options	13.1	10	(10)	-	-
Balance, December 31, 2016		\$ 1,247,302	\$ 67,262	\$ (707,109)	\$ 607,455

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

		For the years ended December 31,	
	Notes	2017	2016 Restated
<i>Cash flows used in operating activities</i>			
Net loss		\$ (281,852)	\$ (73,310)
Finance costs		61,223	62,520
Unrealized foreign exchange (gains)/losses	20.6	(17,154)	(7,159)
Interest income		(10)	(43)
Gain on sale of assets	7, 8	–	(2)
Fair value adjustment on share purchase warrants	13.2	–	(3)
Depletion, depreciation and impairment	7, 8	209,736	547
Share-based compensation	14.4	3,244	3,803
Movement in non-cash working capital	24	2,184	4,820
Net cash provided by (used in) operating activities		(22,629)	(8,827)
<i>Cash flows used in investing activities</i>			
Interest received		10	43
Proceeds from sale of assets	7, 8	–	2
Payments for exploration and evaluation assets	7	(1,562)	(1,344)
Payments for property, plant and equipment	8	(7,654)	(36,145)
Release of restricted cash to fund long-term debt interest payments	4	–	14,389
Movement in non-cash working capital	24	(4,823)	(5,811)
Net cash used in investing activities		(14,029)	(28,866)
<i>Cash flows provided in financing activities</i>			
Proceeds from issue of common shares	13.1	28,311	72,710
Payment for share issue costs	13.1	(605)	(405)
Payment for finance cost	21	(7,710)	(27,038)
Payments for the notes principal	10	(1,857)	–
Proceeds from loans	10	3,601	–
Proceeds from shareholder loans	18	5,399	–
Net cash provided by financing activities		27,139	45,267
Effect of exchange rate changes on cash held in foreign currency	20.6	(445)	(484)
Net increase/(decrease) in cash		(9,964)	7,090
Cash, beginning of year		13,635	6,545
Cash, end of year		\$ 3,671	\$ 13,635

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

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 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Hong Kong.

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 December 31, 2017, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

On March 24, 2017, Sang Xiang Petroleum & Chemical (Shanghai) Limited (“Sunshine Shanghai”) was incorporated in China and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Sunshine Shanghai is Building 1, Level 6, Room 41, 39 Jia Tai Road, the China (Shanghai) Pilot Free Trade Zone.

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 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 Consolidated Financial Statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. The Company has historically met its day to day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share issuances and debt.

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes (Note 10). Management continually monitors the Company’s financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following December 31, 2017.

The timing and extent of forecast capital and operating expenditures is based on the Company’s 2018 budget and on management’s estimate of expenditures expected to be incurred beyond 2018. The Company has a significant degree of control and flexibility over both the extent and timing of expenditures under its future capital investment program.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at December 31, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Group's ability to continue as a going concern.

On September 9, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Wells Fargo Bank N.A., as administrative agent, and certain bondholders (collectively "the Bondholders") in respect of USD \$200 million of notes made under a note agreement dated August 8, 2014. Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising the rights and remedies arising from the Company's failure to pay cash interest and principal payments due on August 1, 2016.

Sunshine was in violation of the Forbearance Agreement including the following financial related termination:

- Sunshine had failed to pay the Yield Maintenance Premium ("YMP") of USD \$14,596,000 payable on October 16, 2016;
- Sunshine failed to repay USD \$25,000,000 of the Senior Notes principal balance payable on February 1, 2017;
- Sunshine failed to pay the 2.50% Forbearance Fees of USD \$ 2,400,000 payable on February 1, 2017;
- Sunshine failed to pay accrued interest equal in aggregate to USD \$10,000,000 payable on February 1, 2017 as contemplated by the Forbearance Agreement;
- Sunshine did not maintain minimum liquidity levels of USD \$10,000,000 as contemplated in the Forbearance Agreement.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement (the "FRA") and a Note Exchange Agreement (the "NEA") with the Forbearing Holders. They agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD \$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD \$5.2 million was paid;
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD \$8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which were paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay the bond principal in an amount equal up to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of USD \$0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of USD \$1.8 million by October 30, 2017;
- Repayment of USD \$5.0 million and USD \$15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD \$5.0 million within 45 days after signing the Amended FA; and the Company is to obtain financing of USD \$5.0 million every quarter.

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD \$1.8 million on October 30, 2017 and USD \$5.0 million on February 1, 2018.

As Sunshine did not meet the aforementioned covenants and payment requirements, the noteholders are contractually entitled to request for immediate repayment of the outstanding senior notes amount of USD \$198.6 million. The outstanding balance is presented as a current liability as at December 31, 2017.

The noteholders have not requested early repayment of the senior notes as of the date when these financial statements were approved by the Board of Directors.

On March 1, 2017, the West Ells Phase I project, located in the Athabasca region of Alberta, commenced commercial production. This marked a key milestone for the Company, following which the Project is treated as a fully operational and commercialized project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

The Consolidated Financial Statements have been prepared on a basis which asserts that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these Financial Statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and balance sheet classifications may be necessary and such adjustments could be material. Specifically, in the absence of additional financing and the restructuring of current debt (Note 10) the Company would be unlikely to be able to continue the development of the West Ells project and the Company would be required to consider divestiture of the West Ells project and other assets. Such curtailment of activity would likely materially and negatively impact the Company's assessment of the carrying values of assets and liabilities associated with the West Ells project.

These Consolidated Financial Statements reflect management's best estimates after giving consideration to likely outcomes. The consolidated financial statements continue to be prepared in accordance with International Financial Reporting Standards ("IFRS") and are consistent with the Company's accounting policies as outlined in financial statement Note 3.

2.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 20). The Consolidated Financial Statements are presented in Canadian Dollars ("\$"), which is the functional currency of the Company.

2.2 Critical accounting judgments and key sources of estimation uncertainty

In applying the Company's accounting policies, which are described in Note 3, 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 affected periods.

2.2.1 Critical judgments and estimates in applying accounting policies

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

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 economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production, 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.

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 of disposal. 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 National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. 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 exploration and evaluation 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

Exploration and Evaluation ("E&E") costs are capitalized as exploration and evaluation assets ("E&E 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

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-based compensation

The Company recognises compensation expense on options, preferred shares and stock appreciation rights ("SARs") granted. Compensation expense is based on the estimated fair value of each option, preferred share 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.

Going concern

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date these consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2017. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiaries, Sunshine Hong Kong, Boxian, and Sunshine Shanghai. 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. Inter-company transactions, balances, revenues and expenses are eliminated on consolidation.

3.2 Oil and Natural Gas Exploration and Development Expenditures

Exploration and evaluation assets

E&E Assets are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, exploration and evaluation drilling, directly attributable general and administrative costs (including share-based compensation costs), borrowing costs, consequential operating costs net of revenues, and the initial estimate of any decommissioning obligation associated with the assets. The costs directly associated with an exploration well are capitalized as intangible E&E Assets until the drilling of the well is complete and the results have been evaluated.

Pre-acquisition costs for oil and gas assets are recognised in the consolidated statements of operations and comprehensive loss when incurred. Acquisition of undeveloped mineral leases is initially capitalized as E&E Assets and charged to consolidated statements of operations and comprehensive loss upon the expiration of the lease, impairment of the asset or management's determination that no further exploration or evaluation activities are planned on the lease, whichever comes first. E&E Assets can be further broken down into tangible and intangible assets. Intangible costs are all costs considered necessary to drill a well and ready a site prior to the installation of the production equipment. Tangible drilling costs are those incurred to purchase and install the production equipment and includes production facilities.

The decision to transfer assets from exploration and evaluation to development and producing assets (included in property, plant and equipment ("PP&E")) occurs when the technical feasibility and commercial viability of the project is determined, based on proved and probable reserves being assigned to the project. If commercial reserves are found, exploration and evaluation intangible assets are tested for impairment and transferred to appraisal and development tangible assets as part of Property, Plant and Equipment. No depreciation and/or amortization is charged during the exploration and evaluation phase.

Impairment

If no economically recoverable reserves are found upon evaluation, the exploration asset is tested for impairment and the difference between the carrying amount and the recoverable amount are charged to the consolidated statements of operations and comprehensive loss. If extractable reserves are found and, subject to further appraisal activity which may include the drilling of additional wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while progress is made in assessing the commerciality of the reserves. All such carried costs are subject to technical, commercial and management review as well as review for indicators of impairment at the end of each reporting period to confirm the continued intent to develop or otherwise extract value from the discovery. Lack of intent to develop or otherwise extract value from such discovery would result in the relevant expenditures being charged to the consolidated statements of operations and comprehensive loss. When economically recoverable reserves are determined and development is approved, the relevant carrying value is transferred to Property, Plant and Equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

E&E Assets are assessed for the indicators of impairment at the end of each reporting period. The assessment for impairment is completed on a CGU basis. After impairment is assessed, any carrying amounts which exceed recoverable amounts, by CGU, on the E&E Assets are written down to the recoverable amount through the consolidated statements of operations and comprehensive loss.

Impairment losses recognised in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

3.3 Property, plant and equipment

Carrying value

PP&E includes computer and office equipment and development and production assets (includes crude oil assets), which are stated at cost less the total of accumulated depletion, depreciation and impairment losses. The initial cost of a PP&E consists of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation associated with the asset and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid, including the fair value of any other consideration given to acquire the asset.

Suspension costs

Suspension costs, which are the costs related to the suspension of a capital project, such as those costs incurred to ensure safety of the worksite and preservation of an asset that are not directly attributable to the development of an asset are expensed through the consolidated statements of operations and comprehensive loss.

Depletion and depreciation

Depletion of development and production costs (crude oil assets), included in PP&E, and production equipment are measured on the unit-of-production method based upon estimated proved plus probable recoverable oil and natural gas reserves before royalties in each CGU as determined by independent engineers.

Office furniture, equipment, computers and vehicles are depreciated on a declining balance basis between 20 and 30 percent per year and straight-line basis over their estimated useful lives.

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Impairment

At the end of each reporting period, the Company reviews the PP&E for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other property, plant and equipment assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of estimated recoverable reserves.

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU, or group of CGUs and then reducing the carrying amount of other assets of the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognised as an expense in the consolidated statements of operations and comprehensive loss.

Where an impairment loss subsequently reverses or decreases, the carrying amount of the assets or CGU is increased to the revised estimate of its recoverable amount, with the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior periods. A reversal of an impairment loss is recognised immediately in the consolidated statements of operations and comprehensive loss, unless the relevant asset is carried at the revalued amount, in which cases the reversal of the impairment loss is treated as a revaluation increase.

Corporate assets are allocated to each CGU on the basis of proportionate future net revenue calculated consistent with the recoverable amount in the most recent impairment test.

Maintenance and repairs

Major repairs and maintenance consists of replacing assets or substantial parts of an asset. Where an asset or substantial part of an asset is replaced and it is probable that future economic benefits associated with the replacement will flow to the Company, the expenditure is capitalized and depreciated over the remaining life of the asset. The net carrying value of the asset or substantial part being replaced is derecognized at the time the replacement is capitalized. All other maintenance costs are expensed as incurred.

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3.4 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.4.1 Decommissioning costs

Decommissioning costs and liabilities for statutory, contractual, constructive or legal obligations associated with site restoration and abandonment of tangible long-lived assets are initially measured at a fair value which approximates the cost the Company would incur in performing the tasks necessary to abandon the field and restore the site. Fair value is recognised in the consolidated statement of financial position at the present value of expected future cash outflows to satisfy the obligation as a liability, with a corresponding increase in the related asset, and is depleted using the unit-of-production method over the estimated remaining proved plus probable oil and gas reserves before royalties as appropriate.

Subsequent to initial measurement, the effect of the passage of time on the liability for the decommissioning obligation (accretion expense) is recognised in the consolidated statements of operations and comprehensive loss as finance costs. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognised as a gain or loss in the consolidated statements of operations and comprehensive loss in the period in which the settlement occurs.

3.5 Share-based compensation

3.5.1 Equity-settled share-based compensation

Share options and preferred shares issued to employees

Equity-settled share-based compensation to directors and employees are measured at the fair value of the equity instruments, less the fair value of the proceeds received on issuing the equity instruments at the issue date.

The fair value of the equity instruments, including share options, warrants or preferred shares, expected to vest as determined at the issue date of the equity-settled share-based compensation is expensed on a graded vesting basis over the vesting period, unless the services are directly attributable to qualifying assets, with a corresponding increase in reserve for share based compensation.

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At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statements of operations and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share based compensation.

At the time when the equity instruments are exercised or converted, the amount previously recognised in reserve for share based compensation will be transferred to share capital. In the event vested equity instruments expire, unexercised or are forfeited, previously recognized share-based compensation associated with such instrument is not reversed. If unvested instruments are forfeited, previously recognized share-based compensation is reversed.

The Company records compensation expense at the date of issue, based on fair value and management's best estimates.

Share options and preferred shares issued to non-employees

Equity-settled share-based compensation transactions, with parties other than employees and directors, are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments issued, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (reserve for share based compensation), when the Company obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets or directly attributable to qualifying assets.

3.6 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. The financial assets are initially measured at fair value, including transaction costs. Financial assets which have been classified as at fair value through profit or loss, are initially measured at fair value and transaction costs are expensed when incurred.

3.6.1 Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated statements of operations and comprehensive loss. The net gain or loss recognised in the consolidated statements of operations and comprehensive loss incorporates any dividend or interest earned on the financial asset.

3.6.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and deposits) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below). Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.6.3 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is expensed against the allowance account. Subsequent recoveries of amounts previously expensed are charged against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statements of operations and comprehensive loss.

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If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.6.4 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The difference between the asset's carrying amount and the sum of the consideration received (and/or receivable), and the cumulative gain or loss that had been recognised in other comprehensive loss and accumulated in equity is recognised in the consolidated statements of comprehensive loss.

3.7 Financial liabilities and equity instruments issued by the Company

3.7.1 Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the terms of the arrangement.

3.7.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded, based on the proceeds received, net of direct issue costs.

3.7.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The Company has classified its trade and accrued liabilities and borrowings as other financial liabilities.

3.7.4 Derecognition of financial liabilities

The Company derecognises financial liabilities when the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statements of operations and comprehensive loss.

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3.8 Derivatives and embedded derivatives

Derivative instruments include financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of derivatives are recognized immediately in profit or loss.

3.9 Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

3.9.1 Current tax

Tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statements of operations and comprehensive loss because of items of income or expense that are taxable or deductible in other years and permanent items which are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.9.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are recognised as an expense or income, in the consolidated statements of operations and comprehensive loss, except when they relate to items that are recognised in other comprehensive loss or directly in equity, in which case the tax is recognised in other comprehensive loss or directly in equity.

3.10 Cash

Cash and cash equivalents includes cash and short-term investments, such as money market deposits or similar type instruments, with a maturity of ninety days or less when purchased.

3.11 Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Foreign exchange gains and losses are included in consolidated statements of operations and comprehensive loss.

3.12 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in the consolidated statements of operations and comprehensive loss in the period in which they are incurred.

Between the dates the West Ells SAGD project recommenced and the date the West Ells asset was ready for use, the Company did not capitalize borrowing costs incurred from the senior secured notes.

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3.14 Jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Company and other partners of assets contributed to or acquired for the purpose of the jointly controlled assets, without the formation of a corporation, partnership or other entity.

The Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with its partners, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the jointly controlled asset and any expenses it incurs in relation to its interest in the jointly controlled assets.

3.15 Accounting policy changes

The Company adopted IAS 12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. This adoption of the amended standard did not have an impact on the Company's consolidated financial statements.

The Company adopted IAS 7, Statement of Cash Flows as part of its disclosure initiative to evaluate changes in liabilities arising from financing activities and includes changes arising from cash flows and non-cash changes. Additional disclosures for changes in liabilities arising from financing activities are included in Note 24 to the Company's consolidated financial statements and no comparative information has been presented as allowed by IAS 7.

3.16 Future accounting policy changes

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of these amendments on the Company's consolidated financial statements.

In May 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively in full or by applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

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In November 2013, the IASB issued the third phase of IFRS 9 “Financial Instruments” which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company is currently assessing and quantifying the potential effect on its financial statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company’s financial statements.

On December 8, 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration which is a new interpretation and clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. This is effective for annual periods beginning on or after January 1, 2018.

4. CASH

	December 31, 2017	December 31, 2016
Cash ¹	\$ 3,671	\$ 13,635
	\$ 3,671	\$ 13,635

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%.

5. TRADE AND OTHER RECEIVABLES

	December 31, 2017	December 31, 2016
Trade	\$ 1,548	\$ 1,434
Accruals and other receivables	3,377	1,053
Goods and services taxes receivable	7	167
	\$ 4,932	\$ 2,654

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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:

	December 31, 2017	December 31, 2016
0 – 30 days	\$ 119	\$ –
31 – 60 days	–	1
61 – 90 days	3	11
>90 days	1,426	1,422
	<u>\$ 1,548</u>	<u>\$ 1,434</u>

As at December 31, 2017, included in the Company's trade receivables was an aggregate carrying amount of \$1.5 million (December 31, 2016 – \$1.4 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

	December 31, 2017	December 31, 2016
Prepaid expenses	\$ 423	\$ 1,067
Deposits	687	3,987
	<u>\$ 1,110</u>	<u>\$ 5,054</u>

As at December 31, 2017, the deposits include Nil held with the Alberta Energy Regulator for the Licensee Liability Rating Program (on February 22, 2017, \$3.2 million was refunded in total). The remaining deposits include ordinary business deposits of \$0.7 million.

7. EXPLORATION AND EVALUATION

Balance, December 31, 2015	\$ 290,945
Capital expenditures	1,344
Non-cash expenditures ¹	(573)
	<u>\$ 291,716</u>
Balance, December 31, 2016	\$ 291,716
Capital expenditures	1,562
Non-cash expenditures ¹	(51)
Impairment loss	25,000
	<u>\$ 268,227</u>
Balance, December 31, 2017	<u>\$ 268,227</u>

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

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Impairment

As at December 31, 2017, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. Significant indicators of impairment were downward revision of reserves and resources, decline in forward commodity benchmark prices and the Company's inability to make any capital expenditures other than West Ells property under the debt agreement. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life.

Recoverable amount was based on the FVLCD model using the median land sale price of \$270 per acre, observed in Northern Alberta for similar properties. For the year ended December 31, 2017, the Company recognized an impairment loss of \$25 million (December 31, 2016 – \$Nil) on its E&E Assets as the estimated recoverable amount exceeded the carrying value. The recoverable amount was estimated to be \$268.2 million.

A 0.5% change in the land sale prices would change the impairment by \$1.3 million. The FVLCD model used is considered a level 2 fair value technique based on the observable and unobservable inputs used.

8. PROPERTY, PLANT AND EQUIPMENT

	Crude oil assets	Corporate assets	Total
Cost			
Balance, December 31, 2015	\$ 853,848	\$ 4,462	\$ 858,310
Capital expenditures	35,970	175	36,145
Non-cash expenditures ¹	(1,997)	–	(1,997)
Balance, December 31, 2016	\$ 887,821	\$ 4,637	\$ 892,458
Capital expenditures	6,984	670	7,654
Non-cash expenditures ¹	(33)	–	(33)
Balance, December 31, 2017	\$ 894,772	\$ 5,307	\$ 900,079

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

	Crude oil assets	Corporate assets	Total
Accumulated depletion, depreciation and impairment			
Balance, December 31, 2015	\$ 205,000	\$ 2,380	\$ 207,380
Depreciation expense	–	547	547
Balance, December 31, 2016	\$ 205,000	\$ 2,927	\$ 207,927
Depletion and depreciation expense	14,183	553	14,736
Impairment loss	170,000	–	170,000
Balance, December 31, 2017	\$ 389,183	\$ 3,480	\$ 392,663
Carrying value, December 31, 2016	\$ 682,821	\$ 1,710	\$ 684,531
Carrying value, December 31, 2017	\$ 505,589	\$ 1,827	\$ 507,416

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The Company commenced commercial production at West Ells Project I on March 1, 2017. As at the time, the Company ceased capitalization of petroleum revenue, royalties, diluent, transportation, and operating expenses relating to West Ells Project I and has included these amounts in the statement of comprehensive income (loss) for the twelve months ended December 31, 2017.

The Company also commenced recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the twelve months ended December 31, 2017. Prior to March 1, 2017, the West Ells Phase I assets of \$687.1 million were not being depleted. In determining the unit-of-production depletion charge on recoverable reserves, future development costs of \$2,400 million were included in property, plant and equipment.

During the twelve months ended December 31, 2017, the Company capitalized directly attributable costs of \$0.02 million for share-based compensation (twelve months ended December 31, 2016 – \$0.6 million) and \$0.4 million for general and administrative costs (twelve months ended December 31, 2016 – \$3.2 million).

Impairment

As at December 31, 2017 the Company reviewed the West Ells CGU for circumstances that indicated the asset may be impaired due to a significant and sustained decline in forward commodity benchmark prices, compared to those at December 31, 2016, resulting in an impairment of \$ 170 million (December 31, 2016 - \$Nil). The recoverable amount was estimated to be \$395.5 million.

The recoverable amount of the West Ells CGU as at December 31, 2017 was determined using FVLCD model, with the assumptions that follow. Reserves value was based on the Company's December 31, 2017 reserves report as prepared by its independent reserve engineer. In assessing FVLCD the recoverable amount of the West Ells CGU was estimated based on proved plus probable reserves using a post-tax discount rate of 8.5 percent. Key input estimates used in the determination of cash flows from West Ells reserves included: quantities of reserves and future production; deferred income tax liability; forward commodity pricing as prepared by independent reserve engineer; development, operating and abandonment costs; royalty obligations and discount and risk rates. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used.

The results of the Company's impairment assessment on West Ells are sensitive to changes in any of the key input estimates of which changes could decrease or increase the recoverable amount of the asset and result in additional impairment charges or recovery of those impairments. A 0.5% increase or decrease in the discount rate would increase the impairment by \$34.5 million or decrease the impairment by \$31.1 million, respectively.

Assuming all the same assumptions as above, a 1% increase or decrease in the forecast commodity prices would decrease the impairment by \$13 million or increase the impairment by \$7 million, respectively.

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The FVLCD calculation assumes the following forecast oil prices in, which were based on the December 31, 2017 price decks prepared by the Company's independent reserve engineer.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @Cushing \$US/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2018	2	0.790	59.00	48.89	39.63	2.20
2019	2	0.790	59.00	53.16	45.71	2.54
2020	2	0.800	60.00	56.25	49.81	2.88
2021	2	0.810	63.00	59.26	52.89	3.24
2022	2	0.820	66.00	62.20	55.89	3.47
2023	2	0.830	69.00	65.06	58.82	3.58
2024	2	0.830	72.00	68.67	62.43	3.66
2025	2	0.830	75.00	72.29	66.05	3.73
2026	2	0.830	77.33	75.10	68.86	3.80
2027	2	0.830	78.88	76.96	70.72	3.88
2028+			escalate oil, gas and product prices at 2% per year thereafter			

9. TRADE AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Trade	\$ 23,506	\$ 27,341
Accrued liabilities	96,810	44,185
	<u>\$ 120,316</u>	<u>\$ 71,526</u>

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

	December 31, 2017	December 31, 2016
Trade		
0 – 30 days	\$ 2,163	\$ 4,514
31 – 60 days	117	1,343
61 – 90 days	222	750
> 91 days	21,004	20,734
	<u>23,506</u>	<u>27,341</u>
Accrued liabilities	96,810	44,185
	<u>\$ 120,316</u>	<u>\$ 71,526</u>

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10. SENIOR NOTES

	December 31, 2017	December 31, 2016
Senior secured notes	\$ 249,199	\$ 268,540
Discount on notes	(16,168)	(16,168)
Financing transaction costs on notes	(11,846)	(11,846)
Amortization of financing transaction costs and discount	28,014	28,014
	<hr/>	<hr/>
Balance, end of year	\$ 249,199	\$ 268,540

On August 8, 2014, the Company completed an offering of USD \$200 million senior secured notes (the “Notes”) at an offering price of USD \$938.01 per USD \$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD \$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 would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the “Forbearing Holders”) entered into a long-term forbearance agreement in respect of the Notes (the “Agreement”). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of \$19.1 million due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD \$22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement (“FRA”) and a Note Exchange Agreement (the “NEA”) with the Forebearing Holders. The Forebearing Holders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD \$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD \$5.2 million was paid; and
- Sunshine agreed to repurchase and the Forebearing Holders agreed to sell up to USD \$8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

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Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Forebearing Holders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On September 26, 2017, the Company and the Forebearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of USD \$0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of USD \$1.8 million by October 30, 2017;
- Repayment of USD \$5.0 million and USD \$15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD \$5.0 million within 45 days after signing the Amended FA;
- The Company is to obtain financing of USD \$5.0 million every quarter.

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD \$1.8 million on October 30, 2017 and USD \$5.0 million on February 1, 2018.

As Sunshine did not meet the aforementioned covenants and payment requirements, the senior notes contractually becomes due. The outstanding balance is presented as a current liability as at December 31, 2017.

The noteholders have not requested early repayment of the senior notes as of the date when these financial statements were approved by the Board of Directors.

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 reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

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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 December 31, 2017, the Company had incurred unsecured third party debt for a total of US\$2.8 million (CAD\$3.4 million equivalent) and incurred related party debt for a total of US\$4.3 million (CAD\$5.3 million equivalent) which is considered Permitted Debt.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At December 31, 2017, the Company had incurred \$18.2 million (USD \$14.5 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.2545 CAD.

11. PROVISIONS

	December 31, 2017	December 31, 2016
Decommissioning obligations (Note 11.1)	\$ 50,481	\$ 49,488
Contract provision (Note 11.2)	—	581
	\$ 50,481	\$ 50,069
Presented as:		
Provisions (current)	\$ —	\$ 581
Provisions (non-current)	\$ 50,481	\$ 49,488

11.1 Decommissioning obligations

As at December 31, 2017, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$78.6 million (December 31, 2016 – \$80.1 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 from 0.73% to 2.42% per annum and inflated using an inflation rate of 2.0% per annum.

	December 31, 2017	December 31, 2016
Balance, beginning of year	\$ 49,488	\$ 51,656
Effect of changes in discount rate	(102)	(3,128)
Unwinding of discount rate	1,095	960
Balance, end of year	\$ 50,481	\$ 49,488

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11.2 Contract provision

As at December 31, 2017, the Company had fully recognized a liability provision related to obligations under a drilling rig contract (December 31, 2016 – \$0.6 million). On April 5, 2017 the Company entered into debt settlement agreement with the Creditor, the Company agreed to allot and issue the Shares to the creditor as full and final settlement. On April 13, 2017, all the conditions of the placing were fulfilled and all of the provision and partial debt with the creditor was settled.

12. INCOME TAXES

12.1 Income taxes recognized in the Statement of Operations

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rate of 27.0% (2016 – 27.0%) to earnings before income taxes for the following reasons:

	December 31, 2017	December 31, 2016
Net loss before taxes	\$ (281,852)	\$ (73,310)
Tax rate (%)	27.0%	27.0%
Expected income tax recovery	(76,100)	(19,794)
Effect of expenses that are not deductible in determining taxable profit:		
Share based payment expense	876	1,027
Capital portion of foreign exchange	(2,347)	(1,925)
Changes to opening tax pools	(981)	1,962
Change in deferred tax benefits not recognized	78,552	18,730
Income tax recovery	\$ -	\$ -

12.2 Deferred tax balances

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

	December 31, 2017	December 31, 2016
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	\$ (109,512)	\$ (119,980)
Decommissioning liabilities	13,630	13,362
Share issue costs	1,705	1,754
Non-capital losses	258,818	193,894
Total Debt	2,945	-
Deferred tax benefits not recognized	(167,586)	(89,030)
	\$ -	\$ -

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12.3 Tax pools

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

	December 31, 2017	December 31, 2016
Canadian development expense	\$ 38,262	\$ 36,163
Canadian exploration expense	230,953	230,926
Undepreciated capital cost	248,162	264,788
Non-capital losses	958,584	718,126
Share issue costs	6,313	6,497
	<u>\$ 1,482,274</u>	<u>\$ 1,256,500</u>

The Company's non-capital losses of \$958,584 (December 31, 2016 – \$718,126), expire between 2028 and 2037.

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

	December 31, 2017	December 31, 2016
Common shares	<u>\$ 1,275,008</u>	<u>\$ 1,247,302</u>

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13.1 Common shares

	December 31, 2017		December 31, 2016	
	Number of shares	\$	Number of shares	\$
Balance, beginning of year	5,002,601,358	1,247,302	4,230,264,104	1,174,987
Private placements – specific mandate	-	-	413,520,000	52,350
Private placements – general mandate	625,276,255	28,311	358,575,588	20,345
Issue of shares under share option plan (Note 14.3)	-	-	241,666	15
Share option reserve transferred on exercise of stock options	-	-	-	10
Share issue costs, net of deferred tax (\$Nil)	-	(605)	-	(405)
Balance, end of year	<u>5,627,877,613</u>	<u>1,275,008</u>	<u>5,002,601,358</u>	<u>1,247,302</u>

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

General mandate

2017 activity

On January 17, 2017 the Company entered into a subscription agreement for a total of 60,000,000 class “A” common shares at a price of HKD \$0.262 per share (approximately CAD \$0.045 per common share), for gross proceeds of HKD \$15.7 million (approximately CAD \$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$117,900 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class “A” common shares at a price of HKD \$0.283 per share (approximately CAD \$0.050 per common share), for gross proceeds of HKD \$70 million (approximately CAD \$12.1 million). On March 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$525,000 (approximately CAD \$0.09 million), was incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement for a total of up to 150,000,000 Class “A” Common Voting Shares of the Company (“Common Shares”) at a price of HKD \$0.29 per Common Share (approximately CAD \$0.048 per Common Share), which in the aggregate amounts to gross proceeds of HKD \$43.5 million (approximately CAD \$7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD \$0.29 (approximately CAD \$0.050 per Common Share). The Company received total gross proceeds of HKD \$11.6 million (approximately CAD \$2.0 million). The subscription agreement expired on the date of this announcement and hence no further closings occurred.

On April 5, 2017 the Company entered into a subscription agreement for a total of 140,874,000 class “A” common shares at a price of HKD \$0.241 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$33.95 million (approximately CAD \$5.8 million). On April 13, 2017 the Company completed the closing of this subscription agreement.

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On May 31, 2017 the Company entered into a subscription agreement for a total of 67,511,000 class “A” common shares at a price of HKD \$0.237 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$15.88 million (approximately CAD \$2.74 million). On June 7, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$122,314 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

On October 18, 2017 the Company entered into a subscription agreement for a total of 8,934,755 class “A” common shares at a price of HKD \$0.257 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$2.3 million (approximately CAD \$0.4 million). On October 31, 2017 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with an independent third party.

On December 14, 2017 the Company entered into a subscription agreement for a total of 60,606,500 class “A” common shares at a price of HKD \$0.264 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$16 million (approximately CAD \$2.6 million). On December 20, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$482,319 (approximately CAD \$0.08 million), was incurred in relation to the Closing.

2016 activity

On March 15, 2016, the Company entered into a subscription agreement (the “Subscription Agreement”) 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 CAD\$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK\$189,999,990 (approximately CAD\$30,902,347).

Completion of the Placement was subject to the fulfillment (or waiver) of certain regulatory conditions, which were met. Completion of the Placement was to occur 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 would immediately and unconditionally cease and be null and void.

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 CAD\$0.055 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK\$29,999,560 (approximately CAD\$4.9 million). In addition, an introduction fee of HK\$599,991 (approximately CAD\$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 CAD\$26.0 million) subscribed 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, effective May 14, 2016, an extension of the remaining 470,589,500 Common Shares (HK\$160,000,430 or CAD\$26.0 million) subscribed 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 CAD\$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK\$20,016,140 (approximately CAD\$3.3 million). In addition, an introduction fee of HK\$400,323 (approximately CAD\$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing.

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On July 4, 2016, the Company announced, effective June 30, 2016, an extension of the remaining 411,718,500 Common shares (HK\$139,984,290 or CAD\$23.1 million) subscribed for be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On August 31, 2016, the Company announced an extension of the remaining 411,718,500 Common shares (HK\$139,984,290 or CAD\$23.1 million) subscribed to be closed in one or more remaining tranches, with the last tranche closing no later than October 31, 2016.

On October 24, 2016, the Company completed the closing of 137,941,176 Common Shares at a price of HK\$0.34 per Common Share (approximately CAD\$0.06 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK\$46,900,000 (approximately CAD\$8.05 million). In addition, an introduction fee of HK\$937,995.40 (approximately CAD\$160,927.03) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company completed the closing of 23,529,412 Common Shares subscribed (at a price of HK\$0.34 per Common Share (approximately CAD\$0.06 per Common Share). Upon Partial Closing, the Company received total gross proceeds of HK\$8,000,000 (approximately CAD\$1.38 million). In addition, an introduction fee of HK\$160,000 (approximately CAD\$27,619) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company announced an extension of the remaining 250,247,912 Common Shares (approximately HK\$85,084,290 or CAD\$14.69 million) subscribed for to be closed in one or more remaining tranches, with the last tranche closing no later than January 31, 2017.

Subsequent to the announcement dated October 31, 2016 of the further extension to the closing date subscription agreement regarding to the remaining 250,247,912 Common Shares, the Company had been informed by the Stock Exchange that the Company's agreement on October 30, 2016 to issue shares on or before the extended closing date of January 31, 2017 did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the Company cannot issue those remaining Common Shares under the Private Placement under the General Mandate. As a result, the Company and Bright Hope determined to mutually terminate the subscription agreement effective November 21, 2016 (Hong Kong time).

On December 7, 2016, the Company entered into a subscription agreement for a total of 50,000,000 class "A" common shares at a price of HK\$0.321 per share (approximately CAD\$0.054 per common share), for gross proceeds of HK\$16.05 million (approximately CAD\$2.7 million). On December 14, 2016 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK\$120,375 (approximately CAD\$0.02 million), had been incurred in relation to the Closing.

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Specific mandate

2017 activity

On June 5, 2017, the Company entered into a subscription agreement with Prime Union at the issue price of HKD \$0.234 per Common Shares (approximately CAD \$0.041 per Common Share) for an aggregate cash consideration of HK \$106.5 million (approximately CAD \$18.5 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 Company. The subscription would be issued pursuant to the Special Mandate to be sought from the Independent Shareholders at Special General Meeting ("SGM"). On August 4, the SGM was held in Sunshine Hong Kong office, and the subscription agreement resolution was duly passed as an ordinary resolution. The subscription agreement lapsed on August 28, 2017.

2016 activity

On May 2, 2016, the Board of Directors, having taken into account the existing 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 CAD\$53.5 million) subscribed by Prime Union Enterprises Limited ("Prime Union") (original subscription agreement was May 31, 2015) to August 2, 2016 from May 2, 2016. The remaining subscribed Common Shares was to 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 subscribed for by Prime Union at a price of HK\$0.75 per Common Share (approximately CAD\$0.126 per Common Share). Under which, the Company received total gross proceeds of HK\$10,000,000 (approximately CAD\$1.68 million).

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 CAD\$0.124 per Common Share). Under which, the Company received total gross proceeds of HK\$30,000,000 (approximately CAD\$4.96 million). The remaining 360,186,667 Common Shares (HK\$270,140,000 or approximately CAD\$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 July 21, 2016, the Company completed the closing of 96,400,000 Common Shares subscribed for by Prime Union at a price of HK\$0.75 per Common Share (approximately CAD\$0.126 per Common Share). Upon which, the Company has received total gross proceeds of HK\$72,300,000 (approximately CAD\$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 at a price of HK\$0.75 per Common Share (approximately CAD\$0.126 per Common Share). Under which, the Company has received total gross proceeds of HK\$114,000,000 (approximately CAD\$19.2 million).

On August 3, 2016, the Company announced an extension, effective August 2, 2016, for the remaining 111,786,667 Common shares (HK\$83,840,000 or CAD\$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 advised Sunshine that it has been working diligently to obtain the regulatory approvals but required additional time.

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On October 24, 2016, the Company completed the closing of 13,333,333 Common Shares (the “Prime Union Partial Closing”) under the Specific Mandate at a price of HK\$0.75 per Common Share (approximately CAD\$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK\$10,000,000 (approximately CAD\$1.72 million).

On December 1, 2016, the Company completed the closing of the remaining 98,453,334 Common Shares (the “Prime Union Partial Closing”) under the Specific Mandate at a price of HK\$0.75 per Common Share (approximately CAD\$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK\$73,840,000 (approximately CAD\$12.69 million).

Post-IPO stock option plan

For the twelve months ended December 31, 2017, the Company issued Nil Class “A” common shares, from the exercise of Nil stock options. During the year ended December 31, 2016, the Company issued 241,666 Class “A” common shares, from the exercise of 241,666 stock options at a weighted average price of CAD\$0.064 per share for cash proceeds of CAD\$0.02 million.

13.2 Share purchase warrants

	December 31, 2017		December 31, 2016	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance, beginning of period	-	-	132,910,941	0.34
Expired	-	-	(132,910,941)	0.34
Balance, end of period	-	-	-	-
Exercisable, end of period	-	-	-	-

During the year ended December 31, 2016, all outstanding share purchase warrants expired.

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

	December 31, 2017	December 31, 2016
Balance, beginning of period	\$ -	\$ 3
Fair value adjustment	-	(3)
Balance, end of period	\$ -	\$ -

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14. SHARE-BASED COMPENSATION

14.1 Employee stock option plan

Post-IPO Stock Option Plan

On January 26, 2012, the Post-IPO Stock Option Plan was approved and adopted by shareholders at the Company's Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Company's IPO closing and listing on the SEHK, March 1, 2012. The maximum number of Class "A" common shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the options already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the Annual and Special Meeting of Shareholders on June 13, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan have an exercise price that is determined by the Board of Directors but is not less than the higher of: the closing price on the Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the shares on Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the shares on the Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) for the five trading days immediately preceding the option offer date.

14.2 Fair value of share options granted in the year

The weighted average fair value of the share options granted for the year ended December 31, 2017 was \$0.05 (year ended December 31, 2016 – \$0.09). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2017 and 2016. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 14.64% to 14.76%.

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	December 31, 2017	December 31, 2016
Grant date share price (\$)	0.044-0.05	0.058-0.10
Exercise Price (\$)	0.044-0.05	0.058-0.10
Expected volatility (%)	73.22-74.72	66.40-70.70
Option life (years)	3.76-3.79	3.76-4.07
Risk-free interest rate (%)	0.93-1.23	0.56-0.88
Expected forfeitures (%)	14.64-14.76	13.39-14.65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

14.3 Movements in stock options

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

	December 31, 2017		December 31, 2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance, beginning of period	258,740,469	0.13	95,554,786	0.31
Granted	14,069,058	0.05	215,539,909	0.09
Exercised	-	-	(241,666)	0.06
Forfeited	(62,604,342)	0.10	(45,542,821)	0.29
Expired	(14,769,660)	0.35	(6,569,739)	0.44
Balance, end of period	<u>195,435,525</u>	<u>0.09</u>	<u>258,740,469</u>	<u>0.13</u>
Exercisable, end of period	<u>131,483,485</u>	<u>0.10</u>	<u>122,243,920</u>	<u>0.17</u>

As at December 31, 2017, stock options outstanding had a weighted average remaining contractual life of 3.6 years (December 31, 2016 – 4.4 years).

The Company granted 14,069,058 stock options during the year ended December 31, 2017. The stock options were granted to directors and employees.

14.4 Share-based compensation

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

	December 31, 2017			December 31, 2016		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	<u>\$ 3,244</u>	<u>\$ 16</u>	<u>\$ 3,260</u>	<u>\$ 3,803</u>	<u>\$ 559</u>	<u>\$ 4,362</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

15. PETROLEUM REVENUE, NET OF ROYALTIES

	December 31, 2017	December 31, 2016
Petroleum sales	\$ 33,902	\$ –
Royalties	(268)	–
	<hr/>	<hr/>
Balance, end of period	\$ 33,634	\$ –
	<hr/> <hr/>	<hr/> <hr/>

1. Petroleum revenue, net of royalties for twelve month ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

The royalty rate at West Ells is based on price sensitive royalty rates set by the Government of Alberta. The applicable royalty rates change dependent upon whether a project is pre-payout or post-payout, with payout being defined as the point in time when a project has generated enough net revenues to recover its cumulative costs. The royalty rate applicable to pre-payout oil sands operations starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above \$55 per barrel, to a maximum of 9% when the WTI crude oil price is \$120 per barrel or higher. All of the Company's projects are currently pre-payout.

The average royalty rate for West Ells was 1% for ten months noted above.

16. OTHER INCOME

	December 31, 2017	December 31, 2016
Interest income	\$ 10	\$ 43
Gain on sale of assets	–	2
Fair value adjustment on share purchase warrants	–	3
	<hr/>	<hr/>
Balance, end of period	\$ 10	\$ 48
	<hr/> <hr/>	<hr/> <hr/>

17. GENERAL AND ADMINISTRATIVE COSTS

	December 31, 2017	December 31, 2016
Salaries, consultants and benefits	\$ 8,588	\$ 6,998
Rent	2,162	1,355
Legal and audit	1,340	1,873
Other	3,656	2,962
	<hr/>	<hr/>
Balance, end of period	\$ 15,746	\$ 13,188
	<hr/> <hr/>	<hr/> <hr/>

Effective March 1, 2017, the Company ceased the capitalization of portions of the general and administrative costs. For the twelve months ended December 31, 2017, the Company capitalized a portion of the general and administrative cost for the first two months of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

18. FINANCE COSTS

	December 31, 2017	December 31, 2016
Interest expense on senior secured notes	\$ 40,459	\$ 28,855
Interest expense on other loans	123	136
Amortization of financing transaction costs and discount	–	10,046
Redemption/yield maintenance premium	17,695	19,055
Financing related costs	978	3,170
Other interest expense/(recovery)	873	298
Unwinding of discounts on provisions	1,095	960
	<u>\$ 61,223</u>	<u>\$ 62,520</u>
Balance, end of period		

19. LOSS PER SHARE

The weighted average number for basic Class “A” common shares for the years 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 years presented.

	December 31, 2017	December 31, 2016
Basic and diluted – Class “A” common shares	<u>5,423,270,696</u>	<u>4,499,936,583</u>
Loss per share	<u>\$ 0.05</u>	<u>\$ 0.02</u>

20. FINANCIAL INSTRUMENTS

20.1 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 its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Group’s ability to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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

	December 31, 2017	December 31, 2016
Working capital deficiency	\$ 368,593	\$ 319,304
Shareholders' equity	356,569	607,455
	<u>\$ 725,162</u>	<u>\$ 926,759</u>

The working capital deficiency of \$368.6 million at December 31, 2017, includes the \$249.2 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the year ended December 31, 2017.

20.2 Categories of financial instruments

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash, prepaid expenses, deposits and trade and other receivables	\$ 9,713	\$ 9,713	\$ 21,343	\$ 21,343
Financial liabilities				
Trade and accrued liabilities	120,316	120,316	71,526	71,526
Debt	<u>257,990</u>	<u>257,990</u>	<u>268,540</u>	<u>268,540</u>

20.3 Fair value of financial instruments

The fair value of cash, prepaid expenses, deposits, trade and other receivables and trade and accrued liabilities approximate their carrying values due to their short term maturity.

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

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.

20.4 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

20.5 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.

20.6 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, HK dollars and/or Chinese renminbi. 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 year ended December 31, 2017.

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 held at December 31, 2017 would have been impacted by Nil and the carrying value of the debt at December 31, 2017 would have been impacted by \$2.5 million. At December 31, 2017, the Company held approximately USD \$0.01 million or \$0.01 million of cash, using the December 31, 2017 exchange rate of 1.2545, as cash and cash equivalents in the Company's US bank accounts.

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 December 31, 2017 would have been impacted by approximately \$0.02 million and the carrying value of the debt at December 31, 2017 would have been impacted by \$0.1 million. At December 31, 2017, the Company held, after recent equity closings, approximately HKD\$13.0 million or \$2.1 million using the December 31, 2017 exchange rate of 6.2291, as cash in the Company's HKD bank accounts.

For Chinese renminbi amounts, exchange rates to convert from Chinese renminbi to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2017 would have been impacted by approximately Nil. At December 31, 2017, the Company held approximately CNY \$1.9 million or \$0.4 million using the December 31, 2017 exchange rate of 5.1867, as cash in the Company's CNY bank accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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

	December 31, 2017	December 31, 2016
Unrealized foreign exchange loss/(gain) on translation of:		
U.S. denominated senior secured notes	\$ (17,484)	\$ (7,826)
H.K. denominated loan	(149)	-
Shareholder's Loan	(60)	-
Foreign currency denominated cash balances	445	484
Foreign currency denominated accounts payable balances	94	183
	<u>(17,154)</u>	<u>(7,159)</u>
Realized foreign exchange loss	6	317
	<u>\$ (17,148)</u>	<u>\$ (6,842)</u>

20.7 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 December 31, 2017, 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 year ended December 31, 2017, the interest rate earned on cash was between 0.1% and 1.55%.

20.8 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 December 31, 2017, the Company's receivables consisted of Nil% from Goods and Services Tax receivable, 26% joint interest billing receivable and 74% from other receivables (December 31, 2016 – 6% from Goods and Services Tax receivable, 41% from joint interest billing receivable and 53% from other receivables).

At December 31, 2017, there was no allowance for doubtful accounts receivable and the Company wrote off \$0.1 million of receivables (December 31, 2016 – \$0.1 million). The Company considers any amounts outstanding in excess of 30 days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
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20.9 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 December 31, 2017, the Company had negative working capital of \$368.6 million and an accumulated deficit of \$989.0 million. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access additional financing.

The timing of cash outflows relating to financial liabilities as at December 31, 2017, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	\$ 120,316	\$ 120,316	\$ –
Debt ¹	257,990	257,990	–
	<u>\$ 378,306</u>	<u>\$ 378,306</u>	<u>\$ –</u>

1. Principal amount of Notes and loans based on the year end exchange rate of \$1 US = 1.2545 CAD and \$1HKD = \$0.1605 CAD. Debt is due on demand.

21. RELATED PARTY TRANSACTIONS

21.1 Trading transactions

For the twelve months ended December 31, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.6 million (December 31, 2016 – \$0.1 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,658,897,000 common shares of the Company which represents approximately 29.5% of the Company's outstanding common shares. During the twelve months ended December 31, 2017 and year 2016, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13) and has loaned the Company funds on an unsecured basis.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan. As at December 31, 2017, total loan amount was HKD \$33.7 million (approximately CAD \$5.4 million). As at February 13, 2018, all the Loan and interests were paid in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
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On January 19, 2016 the Company signed an unsecured loan agreement with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The loan was considered Permitted Debt under the Company's Notes as long as it did not exceed USD \$5.0 million. The loan had an interest rate of 6.0% per annum, could be drawn up to HKD \$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement was signed effective April 14, 2016 with Tai Feng. This Loan had the same interest rate and repayment terms as the loan on January 19, 2016, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the loans on January 29 and April 14, 2016, (principle and interest) were converted into the equity through private placements (Note 13).

21.2 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:

	December 31, 2017	December 31, 2016
Directors' fees ¹	\$ 690	\$ 695
Salaries and allowances	3,591	2,644
Share-based compensation	2,875	3,808
	<u>\$ 7,156</u>	<u>\$ 7,147</u>

1. For the period ended December 31, 2017, this number reflects accrued fees of \$0.2 million (2016 – \$0.1 million). Refer to the appendix A2 for additional director fees disclosure.

22. OPERATING LEASE ARRANGEMENTS

Payments recognised as an expense

	December 31, 2017	December 31, 2016
Minimum lease payments	<u>\$ 2,282</u>	<u>\$ 2,005</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

23. COMMITMENTS AND CONTINGENCIES

As at December 31, 2017, the Company's commitments are as follows:

	Total	2018	2019	2020	2021	2022	Thereafter
Repayment of debt ¹	\$ 249,199	249,199	-	-	-	-	-
Interest payments on debt ²	18,025	18,025	-	-	-	-	-
Redemption premium ³	18,187	18,187	-	-	-	-	-
Loans ⁴	8,806	8,806	-	-	-	-	-
Drilling, other equipment and contracts	2,241	2,241	-	-	-	-	-
Lease rentals ⁵	7,856	1,403	1,395	1,395	1,395	1,253	1,015
Office leases	4,369	3,009	1,074	286	-	-	-
	<u>\$ 321,559</u>	<u>313,746</u>	<u>2,469</u>	<u>1,681</u>	<u>1,395</u>	<u>1,253</u>	<u>1,015</u>

1. Principal amount of Notes based on the period end exchange rate of \$1US=\$1.2545 CAD and a maturity date of August 1, 2018.
2. Based on 10% on principal amount and 2.5% on the principal amount of the notes held by the Forbearing Holders per annum and a maturity date of August 1, 2018, at the period end exchange rate of \$1USD = \$1.2545 CAD.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2018. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2018. Using the period end exchange rate of \$1USD = \$1.2545 CAD this premium amounts to \$18,187. At December 31, 2017, the Company had the option to redeem the Notes at 2.333% of the aggregate principal amount of the Notes outstanding which amounts to \$5,814 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2018 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. Principal of loans and its interest (3% and 6% on principal amount of the debt) based on the period exchange rate of \$1 HKD = \$0.1605 CAD.
5. 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 year ended December 31, 2017 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 CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

24. SUPPLEMENTAL CASH FLOW DISCLOSURES

Non-cash transactions

For the years ended December 31, 2017, and December 31, 2016, the Company had capitalized general and administrative costs including share-based compensation and finance costs (Notes 7 and 8).

Supplemental cash flow disclosures

	December 31, 2017	December 31, 2016
Cash provided by (used in):		
Trade and other receivables	\$ (2,278)	\$ (401)
Prepaid expenses and deposits	3,944	3,065
Trade and other payables	(3,724)	(744)
Provision	(581)	(2,911)
	<u>\$ (2,639)</u>	<u>\$ (991)</u>
Changes in non-cash working capital relating to:		
<i>Operating activities</i>		
Trade and other receivables	\$ (2,278)	\$ (401)
Prepaid expenses and deposits	3,944	3,065
Trade and other payables	518	2,156
	<u>\$ 2,184</u>	<u>\$ 4,820</u>
<i>Investing activities</i>		
Property, plant and equipment	(4,823)	(5,811)
	<u>\$ (2,639)</u>	<u>\$ (991)</u>

The following table reconciles liabilities to cash flows arising from financing activities:

	2017
Balance, December 31, 2016	\$ 268,540
Changes in cash items –	
Payment of senior notes	(1,857)
Issue of other loans	3,601
Issue of shareholder loans	5,399
Changes in non-cash items –	
Unrealized loss/(gain) on senior notes foreign exchange	(17,484)
Unrealized loss/(gain) on other loans foreign exchange	(149)
Unrealized loss/(gain) on shareholder loans foreign exchange	(60)
Balance, December 31, 2017	\$ 257,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended December 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)*

25. SUBSEQUENT EVENTS

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD \$0.272 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$22.0 million (approximately CAD \$3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$0.7 million (approximately CAD \$0.1 million), was incurred in relation to the Closing.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD \$0.244 per share (approximately CAD \$0.039 per common share), for gross proceeds of HKD \$30.0 million (approximately CAD \$4.75 million). On February 13, 2017 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD \$0.244 per share for gross proceeds of HKD \$28.3 million (approximately CAD \$4.6 million) of this subscription agreement. In addition, a placing commission of HKD \$0.9 million (approximately CAD \$0.14 million), was incurred in relation to the Closing. The subscription agreement expired on the date of this announcement and hence the time to close the remaining 6,147,500 class "A" common shares has lapsed.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed the Loan with Prime Union. Total Loan amount are HKD \$ 47.6 million (approximately CAD \$7.75 million), and the Loan had an interest rate of 6.0% per annum and required repayment in full within three months from the date of the receipt of the Loan. To the end of December 31, 2017, only HKD \$33.7 million was drawn (approximately CAD \$5.4 million). As at February 13, 2018, all the Loan and interests were paid in full.

On February 28, 2018 the Company entered into a subscription agreement for a total of 102,436,500 class "A" common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$25.1 million (approximately CAD \$4.1 million). A payment of CAD \$455 thousand cash is to be made. On March 14, 2018 the Company completed the closing of this subscription agreement and a payment of \$228 thousand was made with the remaining balance due within 45 days after signing the agreement. This subscription agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018 the Company entered into a subscription agreement for a total of 20,393,059 class "A" common shares at a price of HKD \$0.245 per share (approximately CAD \$0.040 per common share), for gross proceeds of HKD \$5.0 million (approximately CAD \$0.8 million). On March 14, 2018 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with independent third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of Canadian dollars, unless otherwise indicated)

26. COMPARATIVE FIGURES

In the 2016 statement of cash flows, the payment for finance costs included amounts which were accrued but not paid in 2016 and movement in non-cash working capital items were reclassified between operating, investing and financing activities. These adjustments do not impact the cash balance as at December 31, 2016. Such adjustments had no impact on the previously reported Consolidated Statement of Financial Position and Consolidated Statement of Operations and Comprehensive Loss. The changes to the Statement of Cash Flows for the year ended December 31, 2016 are summarized in the following table:

	2016 as Previously Reported	Adjustments	2016 Restated
<i>Cash flows used in operating activities</i>			
Net loss	(73,310)	–	(73,310)
Finance Costs	62,520	–	62,520
Unrealized foreign exchange (gains)/losses	(7,159)	–	(7,159)
Contract provision expense	75	(75)	–
Interest income	(43)	–	(43)
Gain on sale of assets	(2)	–	(2)
Fair value adjustment on share purchase warrants	(3)	–	(3)
Depletion, depreciation and impairment	547	–	547
Share based compensation	3,803	–	3,803
Movement in non-cash working capital	10,154	(5,334)	4,820
	(3,418)	(5,409)	(8,827)
<i>Cash flows used in investing activities</i>			
Interest received	43	–	43
Proceeds from sale of assets	2	–	2
Payments for exploration and evaluation assets	(1,344)	–	(1,344)
Payments for property, plant and equipment	(36,145)	–	(36,145)
Release of restricted cash to fund long-term debt interest payments	14,389	–	14,389
Movement in non-cash working capital	10,486	(16,297)	(5,811)
	(12,569)	(16,297)	(28,866)
<i>Cash flows provided in financing activities</i>			
Proceeds from issue of common shares	72,710	–	72,710
Interest and premiums paid	–	(27,038)	(27,038)
Payment for share issue costs	(405)	–	(405)
Payment for finance costs	(51,514)	51,514	–
Movement in non-cash working capital	2,770	(2,770)	–
	23,561	21,706	45,267
<i>Effect of exchange rate changes on</i>			
cash held in foreign currency	(484)	–	(484)
Net increase/(decrease) in cash	7,090	–	7,090
Cash, beginning of year	6,545	–	6,545
	13,635	–	13,635

27. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 18, 2018.

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the SEHK and not shown elsewhere in these 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, Boxian and Sunshine Shanghai.

	December 31, 2017	December 31, 2016
<i>Non-current assets</i>		
Property, plant and equipment	\$ 506,741	\$ 684,410
Exploration and evaluation assets	268,227	291,716
Amounts due from subsidiary	8,967	4,657
	783,935	980,783
<i>Current assets</i>		
Trade and other receivables	4,932	2,654
Prepaid expenses and deposits	813	4,956
Cash	1,404	13,066
	7,149	20,676
<i>Current liabilities</i>		
Trade and other payables	120,315	71,509
Provisions	–	581
Amount due to subsidiary	2,544	2,611
Loans	3,452	–
Shareholder loans	5,339	–
Senior notes	249,199	268,540
	380,849	343,241
Net current assets	(373,700)	(322,565)
Total assets less current liabilities	410,235	658,218
<i>Non-current liabilities</i>		
Provisions	50,481	49,488
Net assets	\$ 359,754	\$ 608,730
<i>Capital and reserves</i>		
Share capital	\$ 1,275,008	\$ 1,247,302
Reserve for share-based compensation	70,522	67,262
Deficit	(985,776)	(705,834)
	\$ 359,754	\$ 608,730

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A2. Directors' emoluments and other staff costs

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

	December 31, 2017	December 31, 2016
<i>Directors' emoluments</i>		
Directors' fees	\$ 690	\$ 695
Salaries and allowances	3,591	2,371
Share-based compensation	2,875	3,775
	7,156	6,841
<i>Other staff costs</i>		
Salaries and other benefits	4,368	6,184
Contribution to retirement benefit scheme	171	237
Share-based compensation	369	587
	4,908	7,008
Total staff costs, including directors' emoluments	12,064	13,849
Less: staff costs capitalized to qualifying assets	249	3,048
	\$ 11,815	\$ 10,801

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A3. Directors' emoluments

Details of the Directors' emoluments are as follows:

For the twelve months ended December 31, 2017

Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	\$ 84	\$ 600	\$ -	\$ 957	\$ -	\$ 1,641
Michael Hibberd	77	550	-	957	-	1,584
Hong Luo	52	385	-	410	-	847
Qi Jiang ⁵	31	1,192 ⁵	-	(117)	-	1,106
Qiping Men	58	460	-	410	-	928
Jianzong Chen ¹	10	-	-	12	-	22
Gerald Stevenson ⁶	42	-	-	38	-	80
Raymond Fong	61	-	-	38	-	99
Yi He	64	-	-	38	-	102
Joanne Yan	69	-	-	38	-	107
Xijuan Jiang	56	-	-	12	-	68
Gloria Ho ²	25	404	-	82	-	511
Ms. Linna Liu ³	33	-	-	-	-	33
Mr. Jingfeng Liu ⁴	28	-	-	-	-	28
	<u>\$ 690</u>	<u>\$ 3,591</u>	<u>\$ -</u>	<u>\$ 2,875</u>	<u>\$ -</u>	<u>\$ 7,156</u>

1. Mr. Chen ceased as director on April 6, 2017.
2. Ms. Ho commenced as an executive director on June 27, 2017.
3. Ms. Liu commenced as a non-executive director on April 6, 2017.
4. Mr. Liu commenced as an independent non-executive director on June 27, 2017.
5. Mr. Jiang ceased as director on June 27, 2017.
6. Mr. Stevenson ceased as director on June 27, 2017.

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the twelve months ended December 31, 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	\$ 84	\$ 152	\$ -	\$ 1,059	\$ -	\$ 1,295
Michael Hibberd	80	-	-	1,171	-	1,251
Hong Luo	53	517	-	479	-	1,049
Qi Jiang	60	1,187	-	536	-	1,783
Qiping Men ¹	29	515	-	476	-	1,020
Tseung Hok Ming	26	-	-	(26)	-	-
Jianzong Chen	40	-	-	15	-	55
Jimmy Hu ⁵	22	-	-	-	-	22
Zhefei Song ⁷	30	-	-	-	-	30
Robert Herdman ⁶	38	-	-	(26)	-	12
Gerald Stevenson	74	-	-	23	-	97
Raymond Fong	66	-	-	23	-	89
Yi He ²	31	-	-	15	-	46
Joanne Yan ³	33	-	-	15	-	48
Xijuan Jiang ⁴	29	-	-	15	-	44
	<u>\$ 695</u>	<u>\$ 2,371</u>	<u>\$ -</u>	<u>\$ 3,775</u>	<u>\$ -</u>	<u>\$ 6,841</u>

1. Mr. Men commenced as Executive Director on June 30, 2016.
2. Mr. He commenced as a non-executive director on June 30, 2016.
3. Ms. Yan commenced as a non-executive director on June 30, 2016.
4. Ms. Jiang commenced as a non-executive director on June 30, 2016.
5. Mr. Hu ceased as a director on June 30, 2016.
6. Mr. Herdman ceased as director on June 30, 2016.
7. Mr. Song ceased as director on June 30, 2016.

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A4. Five highest paid individuals

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

	December 31, 2017	December 31, 2016
HK\$ nil to HK\$1,000,000	-	-
HK\$1,000,001 to HK\$1,500,000	-	-
HK\$1,500,001 to HK\$2,000,000	-	-
HK\$2,000,001 to HK\$2,500,000	-	-
HK\$2,500,001 to HK\$3,000,000	-	-
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	1	-
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	-	1
HK\$6,500,001 to HK\$7,000,000	1	1
> HK\$7,000,000	2	2

For the year ended December 31, 2017, the conversion factor used in the above table is 1C\$ = 6.0095 HKD (year ended December 31, 2016, 1C\$ = 5.8594 HKD).

The five highest paid individuals includes five directors of the Company and four key management executives of the Company for the year ended December 31, 2017 (for the year ended December 31, 2016 there were three directors and two key management executives). Since the directors' emoluments are disclosed above, the compensation of the key management executives for the Company is as follows:

	December 31, 2017	December 31, 2016
Salaries and other benefits	\$ -	\$ 273
Contributions to retirement benefits scheme	-	2
Share-based compensation	-	33
	\$ -	\$ 308

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A5. Senior management remuneration by band

The emoluments fell within the following bands:

	December 31, 2017	December 31, 2016
HK\$ nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	–	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	1	–
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	1	–
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$6,500,001 to HK\$7,000,000	1	–
> HK\$7,000,000	1	2

For the year ended December 31, 2017, the conversion factor used in the above table is 1C\$ = 6.0095 HKD (year ended December 31, 2016, 1C\$ = 5.8594 HKD).

The table above includes the remuneration for the executive directors and executive officers of the Company. As at December 31, 2017, \$0.2 million (2016 – \$0.1 million) was the total payable to senior management and this was included in trade and accrued liabilities.

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Executive Directors:

Mr. Kwok Ping Sun (*Chairman*)
Mr. Qiping Men (*Chief Executive Officer*)
Ms. Gloria Pui Yun Ho (*Chief Financial Officer*)

Non-Executive Directors:

Mr. Michael J. Hibberd (*Vice-Chairman*)
Mr. Hong Luo
Ms. Xijuan Jiang
Ms. Linna Liu

Independent Non-Executive Directors:

Mr. Raymond S. Fong
Mr. Yi He
Mr. Jeff Jingfeng Liu
Ms. Joanne Yan

CORPORATE SECRETARY:

Ms. Man Ngan Chow

AUTHORIZED REPRESENTATIVES:

Mr. Qiping Men
Ms. Man Ngan Chow

AUDITORS:

PricewaterhouseCoopers LLP

AUDIT COMMITTEE:

Ms. Joanne Yan (*Chairlady*)
Mr. Raymond S. Fong
Mr. Yi He
Mr. Jeff Jingfeng Liu

COMPENSATION COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)
Mr. Raymond S. Fong
Ms. Joanne Yan
Ms. Xijuan Jiang

RESERVES COMMITTEE:

Mr. Qiping Men (*Chairman*)
Mr. Raymond S. Fong
Mr. Jeff Jingfeng Liu

CORPORATE GOVERNANCE COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)
Mr. Michael J. Hibberd
Mr. Raymond S. Fong
Mr. Yi He
Ms. Joanne Yan

CORPORATE HEADQUARTERS:

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CORPORATE INFORMATION

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SHARE REGISTRAR IN HONG KONG:

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Email: hkinfo@computershare.com.hk

SHARE REGISTRAR IN ALBERTA:

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Email: inquiries@alliancetrust.ca

COMPETENT PERSONS:

Boury Global Energy Consultants Ltd.
GLJ Petroleum Consultants Ltd.

PRINCIPAL BANKERS:

Bank of China (Hong Kong) Limited
Bank of China (Canada)
ATB Financial

LEGAL ADVISERS:

Dentons Canada LLP
Robertsons Solicitors

WEBSITE:

www.sunshineoilsands.com

PLACE OF SHARE LISTING AND STOCK CODE:

The Stock Exchange of Hong Kong Limited: 2012