



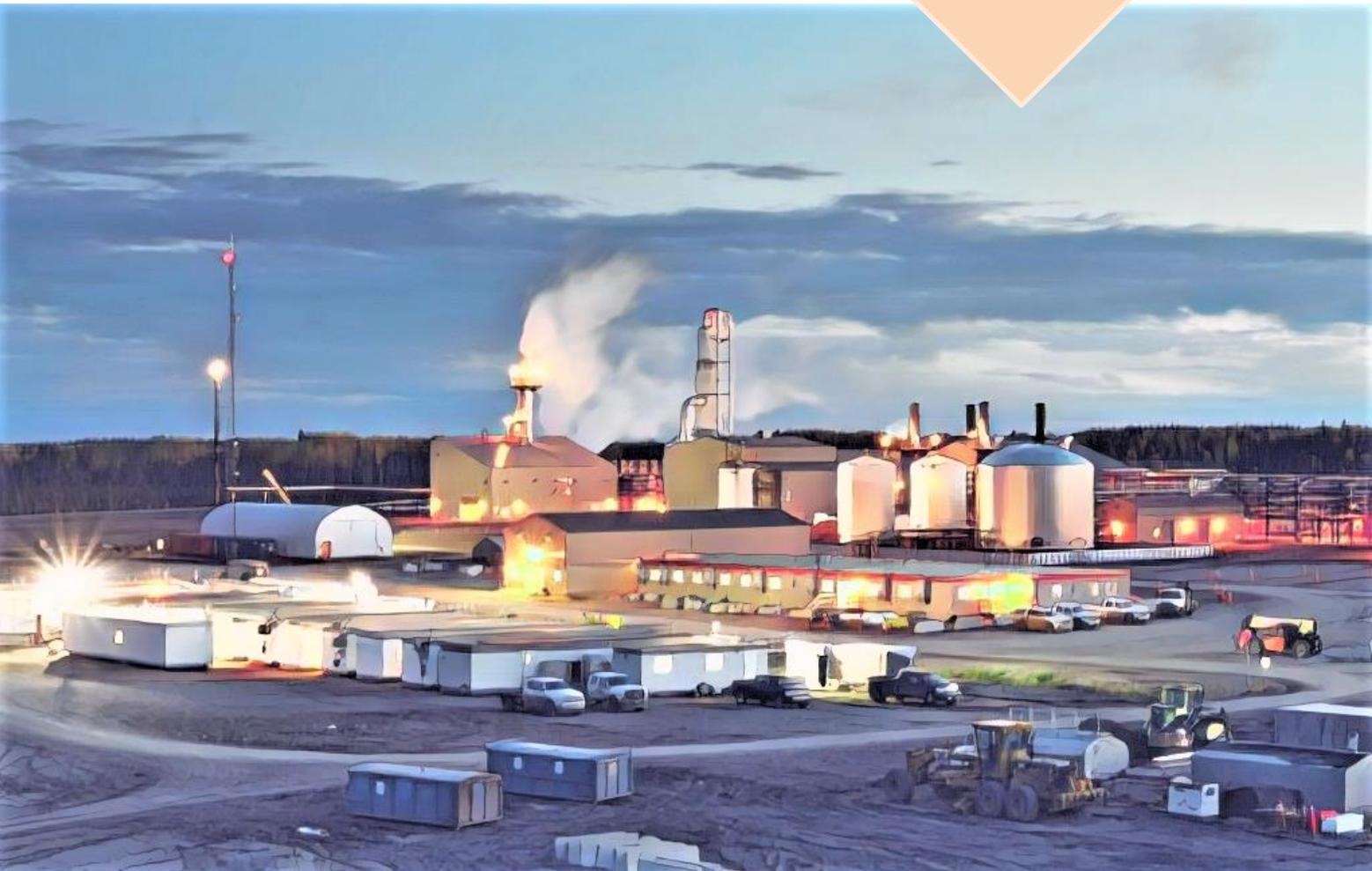
阳光油砂
SUNSHINE OILSANDS LTD.

SUNSHINE OILSANDS LTD.
陽光油砂有限公司*

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

(HKEX : 2012)

2020 ANNUAL REPORT



**For identification purpose only*

**For identification purpose only*

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SUMMARY OF AUDITED FINANCIAL FIGURES

| <i>As at and for the year ended December 31</i> | 2020 <i>(\$000s)</i> | 2019 <i>(\$000s)</i> <i>(Restated)</i> | 2018 <i>(\$000s)</i> | 2017 <i>(\$000s)</i> | 2016 <i>(\$000s)</i> |
|---|--------------------------------|---|--------------------------------|--------------------------------|--------------------------------|
| Cash and cash equivalents | 838 | 1,254 | 583 | 3,671 | 13,635 |
| Current restricted cash and cash equivalents | — | — | — | — | — |
| Non-current restricted cash and cash equivalents | — | — | — | — | — |
| Exploration and evaluation assets | 256,195 | 253,144 | 269,218 | 268,227 | 291,716 |
| Property, plant and equipment | 481,825 | 479,055 | 492,815 | 507,416 | 684,531 |
| Total liabilities | 596,240 | 601,773 | 527,328 | 428,787 | 390,135 |
| Shareholders' equity | 165,420 | 158,885 | 251,953 | 356,569 | 607,455 |
| Net profit / (loss) | 1,983 | (97,585) | (126,996) | (281,852) | (73,310) |
| Net loss per share <i>(\$ per basic and diluted share)</i> | 1.72 | (1.57) | (0.02) | (0.05) | (0.02) |

Note

- (1) The Company implemented a Share Consolidation on the basis that every fifty (50) Existing Shares be consolidated into one (1) Consolidated Share, effective on February 26, 2020 (Hong Kong time)

MESSAGE TO SHAREHOLDERS

For three and twelve months ended December 31, 2020, the Company's average bitumen production was 0 bbls/day and 247.3 bbls/day respectively. Diluent was blended at 0% and 19.6% volumetric rate for the three and twelve month ended December 31, 2020 with the bitumen as part of the production process to create the marketable "Dilbit" blend product. The average Dilbit sales volume was 0 bbls/day and 293 bbls/day for the three and twelve months ended December 31, 2020.

Sunshine's Capital Raising Activities

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class "A" common shares at a price of HK\$1.31 per share (post-consolidation) for gross proceeds of HK\$1,896,000 (CDN\$324,000). On March 5, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was completed on 15 June 2020. The entire proceeds will be used for financing general working capital and repayment of debts.

On October 1, 2020, the Company received notice for conversion from the Subscriber of the HK\$72,000,000 CB as per the Subscription agreement dated 1 April 2020. The Subscriber, as intended to convert the CB in whole, has made application to the Securities & Futures Commission of Hong Kong ("HKSF") for a Whitewash Waiver and the HKSF has conditionally granted the Whitewash Waiver on 4 March 2021. The conversion and whitewash waiver have been approved by independent shareholders at the special general meeting on March 5, 2021 (Hong Kong time).

Summary of Financial Figures

As at December 31, 2020 and December 31, 2019, the Company notes the following selected balance sheet figures.

| <i>(Canadian \$000s)</i> | December 31, 2020 | December 31, 2019 |
|-----------------------------------|------------------------------|----------------------|
| Cash | 838 | 1,254 |
| Trade and other receivables | 1,636 | 5,449 |
| Exploration and evaluation assets | 256,195 | 253,144 |
| Property, plant and equipment | 481,825 | 479,055 |
| Total liabilities | 596,240 | 601,773 |
| Shareholders' equity | 165,420 | 158,885 |

Operating Netback

| (\$ thousands, except \$/bbl) | For the three months ended December 31, | | For the twelve months ended December 31, | |
|----------------------------------|--|----------|---|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Realized bitumen revenue | \$ 78 | \$ 6,059 | \$ 2,340 | \$ 30,618 |
| Transportation | - | (2,933) | (2,527) | (13,955) |
| Royalties | - | (94) | (5) | (618) |
| Net bitumen revenues | \$ 78 | \$ 3,032 | \$ (192) | \$ 16,045 |
| Operating costs | (1,518) | (3,027) | (9,722) | (17,989) |
| Operating cash flow ¹ | \$ (1,440) | \$ 5 | \$ (9,913) | \$ (1,944) |
| Operating netback (\$ / bbl) | - | 0.03 | (115.01) | (3.14) |

1. Operating cash flow is a non-GAAP measure which is defined in the Advisory section of the Management Discussion and Analysis.

The Operating cash flow for the three months ended December 31, 2020 was a net loss of \$1.4 million compared to a net gain of \$0.005 million for the three months ended December 31, 2019. Operating netback gain per barrel basis was \$0.03/bbl for the three months ended December 31, 2019. The decrease in the operating cash flow per barrel was primarily due to temporary suspension of production since March 31, 2020 resulting from volatility in the international crude oil market and severe decline in crude prices.

The operating cash flow for the twelve months ended December 31, 2020 was a net loss of \$9.9 million compared to a net loss of \$1.9 million for the twelve months ended December 31, 2019. Operating netback loss per barrel basis increased by \$111.87/bbl to a loss of \$115.01/bbl from a loss of \$3.14/bbl for the year ended December 31, 2020. The increase of the operating cash flow deficiency is primarily due to year over year drop in average petroleum sales price and temporary suspension of production since March 31, 2020.

Reserves and Resources

Reserves and resources evaluations, dated December 31, 2020, were completed by independent evaluator, GLJ 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 | 0 | 0 | 115.146 | 55.192 | 172.183 | 249.637 |

2021 Outlook

Sunshine will continue to carefully monitor developments in crude oil markets and COVID-19 and will adjust its strategies accordingly. Cost control remains a focus of the Company. The Company is also continuing with its joint venture for re-activation of the Muskwa and Godin Area activities as international oil price recovers.

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. 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

“Gloria Ho”
Executive Director, CFO

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE CHAIRMAN AND DIRECTOR

Mr. Kwok Ping Sun (“Mr. Sun”), aged 56, 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 65, 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 Pan Orient Energy and Petro Frontier Corp., the shares 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., Rally Energy Corp and Montana Exploration 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.

EXECUTIVE DIRECTOR

Ms. Gloria Pui Yun Ho (“Ms. Ho”), age 40, 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”)

Ms. Linna Liu (“Ms. Liu”), aged 43, 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 18 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 55, became a Non-Executive Director on June 30, 2016. She was a senior engineer with 26 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. Yi He (“Mr. He”), age 48, is an Independent Non-Executive Director appointed on June 30, 2016. He has worked in the financial industry for more than 23 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 Holdings Limited (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 Yaixin 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. Guangzhong Xing (“Mr. Xing”), age 64, is an Independent Non-Executive Director appointed on June 25, 2019. He obtained his Doctor Degree from the University of Hull with Debeers Scholarship in July 1995. He further obtained postdoctoral from the same university in June 1996. Mr. Xing holds a master degree and a bachelor degree of Metallography from the Northeast Heavy Machinery Institute (renamed as Yanshan University in 1997) (“Yanshan University”) in August 1981 and August 1978 respectively. He started his career as university tutor in the Northeast Heavy Machinery Institute Metallography in September 1978 until August 1979 and during the period from September 1981 to September 1989. He was then acted for the position as dean for the school of materials science of Yanshan University during the period from August 1996 to October 1997. Thereafter, for the period from November 1997 to December 1999, he acted as a director of academic affairs of Yanshan University. During the period from January 2001 to October 2016, he was the vice principal of Yanshan University. He also had been the President of 燕山大學產業集團 (Yanda Industry Group Co., Ltd. *) and 燕山大學房地產公司 (Yanda Real Estate Company *) during the period from October 2004 to October 2009; and established 燕山大學國家大學科技園 National science area of Yanshan University.

Mr. Alfa Li, age 48, is an Independent Non-Executive Director appointed on July 29, 2019. He obtained the EMBA master degree from the Peking University and graduated from British Columbia Institute of Technology in the 90s. Mr. Li has over 16 years of experience in the financial services and investment banking industry, with extensive knowledge and experience in asset management, corporate finance and public company corporate governance. Mr. Li is currently the director and partner of Sow Capital and is in charge of SOW’s North American investment / projects. Prior to joining the SOW Fund, Mr. Li served as the managing director at the Sinopolaris Fund, and was the Chief Representative of Carret China opportunity fund, and the deputy general manager of Investment Division of CITIC International Assets Management Limited. He also has been the director of the ING Bank and the investment manager of Standard Bank. Mr. Li has been actively involved and engaged in many securities and corporate finance transactions, as well as being responsible for successfully setting up and running several international private equity funds.

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, 2020. 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 company 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 for the financial year 2020, save as the Company has not entered into formal letters of appointment with its Directors. This is a deviation from D.1.4 of the Code. However, for consistency with the general market practice in Canada, each of the Company’s Directors are appointed or re-appointed on an annual basis by the shareholders at each annual general meeting. The Board considered that this practice served the purpose of Code D.1.4.

Board Committees

The Board has established (i) audit committee (“AC”), (ii) corporate governance committee (“CG Committee”), (iii) compensation committee (“Comp C”) and (iv) reserves committee (“Res C”) 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 at www.sunshineoilsands.com 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, 2020, 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, save as disclosed above. 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 (“INED”) an annual confirmation of independence for the financial year of 2020 in accordance with Rule 3.13 of the Listing Rules. In light that all INEDs fulfill the independence requirements set out under the Listing Rules, which among others, all of them hold, whether legally or beneficially, less than 1% of the number of the Company’s issued shares and are not connected with the other Directors, Chief Executive(s) or substantial shareholders of the Company, the Company considers that all of INEDs are independent. The Board is of the view that all INEDs are independent and Mr. David Yi He (one of the INEDs) possesses the appropriate accounting professional qualifications. All INEDS have wide exposure on the related financial or management expertise in accordance with Rule 3.10 of the Listing Rules. As at the date of this annual report, no INED has served the Company for more than 9 years.

There is no interrelationship, including financial, business, family or other materials/relevant relationship(s) among all Board members, and also, in particular, between the Chairman and the Chief Executives of the Company.

The Board has established clear guidelines with respect to matters that must be approved or recommended by the Board, including, without limitation, the approval and adoption of the Company’s operating budget and capital expenditure budget; the hiring or dismissal of the Chief Executive Officer (“CEO”), the Chief Financial Officer (“CFO”), the Board Secretary or certain other members of the Company’s senior management team; and approving and recommending the payment of dividend or significant transactions. The day-to-day management administration and operation of the Company are delegated to the CEO and senior management of the Company. During the year under review, Mr. Horst Wolfgang Wunschelmeier (“Mr. Wunschelmeier”) ceased to be the CEO of the Company on August 31, 2020. Mr. Frank Chi Man Ng, the Chief Technology Officer, temporarily assumed direct responsibility for all CEO tasks and functions since then.

The Company has arranged appropriate insurance coverage in respect of potential legal actions against its Directors and senior management during the year under review.

As at the date of this annual report, the Board consists of the following members:

Executive Directors (“ED”)

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

Non-Executive Directors (“NED”)

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

Independent Non-Executive Directors (“INED”)

Mr. David Yi He
Mr. Alfa Li
Mr. Guangzhong Xing

Practices and Conduct of Meetings

Notice of regular Board meetings is given to all Directors at least fourteen days in advance and reasonable notice is generally given for other Board meetings, unless on an emergency case. Whenever short notice is given, all Directors will be notified and the Company will seek their consent for such short notice. Annual meeting schedules and the draft agendas for 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 at least seven days or as early as possible 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. Regular Board meetings will be held at least four times a year at approximately quarterly intervals. During the financial year 2020, the Board held quarterly interval Board meetings to consider and discuss, among others, the quarterly results of the Company.

All Directors are entitled to have access to board papers and related materials. These papers and related materials should be in a form and qualify sufficient to enable the Board to make informed decisions on matters placed before it.

Minutes of the Board and committee meetings are kept by the Board Secretary and are open for inspection by Directors anytime. All Directors are properly briefed on issues arising at Board meetings. In addition to EDs, INEDs and other NEDs are encouraged to make positive contribution to the development of the Company’s strategy and policies through independent, constructive and informed comments. Upon reasonable request, Directors are enabled to seek independent professional advice at the expenses of the Company. During the financial year under review, the Company received no such request for independent professional advice.

If a Director and/or any of his associate has a material interest in a transaction, the matter must be dealt with by physical Board meeting and 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 said transaction. During the year, the Company discussed the issuance of fixed rate convertible bonds to Mr. Kwok Ping Sun, the Company’s Executive Chairman, at a physical Board meeting. Mr. Sun’s interest was duly declared at that Board meeting and he has abstained from voting on all relevant resolutions in relation thereto.

Under the Code, the Chairman should hold meetings with the independent non-executive Directors at least annually without the presence of other Directors. During the financial year under review, the Chairman held a meeting with all INEDs without the presence of other Directors.

Appointment and Election of Directors, Board Diversity

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 CG Committee of the Company.

The Board believes that diversity of experience, professionally and geographically, enhances its decision-making ability. The Company has adopted a Board Diversity Policy (the “BD Policy”) with the aim of enhancing the Board’s effectiveness and corporate governance as well as achieving business objectives. The BD Policy is available on the website of the Company for public information.

In designing the Board’s composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. All Board appointments will be based on merits and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The CG Committee is responsible for monitoring the achievement of the measurable objectives set out in the BD Policy. It will review the Board’s composition at least once annually taking into account the benefits of all relevant diversity aspects and adhere to the BD Policy when making recommendation on any Board appointments. During the financial year under review, the CG Committee held a meeting to review the Board composition and Board diversity, and the CG Committee considered the current composition of the Board served the purpose of enhancing the quality of the Company’s strategy and operation, and no new directors was nominated or identified during the year.

As at the date of this annual report, the Board consisted of eight (8) experts covering the areas of new energy, mechanical engineering, geology, investment, audit, accounting, corporate finance, banking, financial services and law. The CG Committee considers that such compositions serve the purpose of enhancing the quality of the Company’s business performance and operation strategy and it will make recommendation to the Board as and when it considers necessary.

The CG Committee also reviews the BD Policy, if applicable and as appropriate, to ensure its effectiveness. The CG Committee will discuss any revisions to the BC Policy that may be required, and recommend any change revisions to the Board for consideration and approval.

Nominees for Directors are elected to hold office until the next annual general meeting 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.

The term of appointment of all Directors, including non-executive Directors, is from the time of election or re-election at the annual general meeting to the following annual general meeting of the Company; at which point the Director must be re-elected. Each Director was elected or re-elected at that annual general meeting is subject to re-election. Biographical details of those appointed and re-elected Directors are set out in the “Directors and Senior Management” section of this annual report. The CG Committee will review from time to time such that the Board’s composition is tailor made for serving the Company’s strategy.

Induction and Ongoing Development

Each newly appointed Director receives a comprehensive and tailored induction to ensure his or her understanding of the business and operations of the Company as well as awareness of a director’s responsibilities and obligations. Every Directors are reminded and should ensure that he can give sufficient time and attention to the Company’s affairs and should not accept the appointment if he cannot do so. During the year, no Director was newly appointed, nominated or resigned.

Current Directors are also continuously 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.

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, among others, overseeing the corporate governance and financial reporting of the Company, 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.

Each committee comprised of independent non-executive Directors, who participate in Board and committee meetings to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conducts. They take the lead where potential conflicts of interests arise and scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.

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 three (3) members, namely Mr. David Yi He (Chair of the audit committee and an INED), Mr. Alfa Li (INED) and Mr. Guangzhong Xing (INED), all of them are independent non-executive Directors and financially literate. The AC shall meet at least four times annually, or more frequently as circumstances dictate. At least once a year, it shall meet with the external and internal auditors without executive Board members present.

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. Mr. David Yi He, the Chair of audit committee, possesses the required accounting professional qualifications and all audit committee members possessed the related financial and management expertise, and have the ability to read and understand a set of financial instruments that present a breadth and level of complexity of accounting issues that are generally comparable.

All members have sufficient experience in reviewing audited financial statements as aided by the independent external auditors of the Company whenever required. To assist in discharging its responsibilities, the committee may at its discretion, in addition to the external auditors, at the expense of the Company, retain one or more persons having special expertise, including independent counsel. At the discretion of the committee, the AC members shall meet in private sessions with the external auditors on request.

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. The AC chair shall report after each committee meeting to the Board at the Board's next regular meeting. The AC shall annually review, discuss and assess its own performance. In addition, the committee shall periodically review its role and responsibilities.

The AC held five (5) meetings during the year ended December 31, 2020. The following is a summary of the work performed by the audit committee during 2020:

- In consultation with management and the external auditors, develop an annual work plan responsive to the committee's responsibilities. Participate in a process for review of important financial topics that have the potential to impact the Company's financial disclosure;
- reviewed the scope of the audit of the consolidated financial statements of the Company for the year ended December 31, 2019, as well as the fee proposal for such audits;
- reviewed, prior to public release, the condensed interim consolidated financial statements for the periods ended March 31, 2020, June 30, 2020 and September 30, 2020, respectively and for the year ended December 31, 2020 with management and, to the extent required, the external auditors, focusing in particular, major judgement areas, any changes in accounting policies and practices, significant adjustments resulting from the audit review, going concern assumption, etc.
- reviewed the assessment of the design and testing of the effectiveness of the Company's internal financial control systems and risk management as performed by the external consultant;

- reviewed capital budgets as presented by senior management on a quarterly basis; and
- reported to the Board on the meetings of the audit committee.

During the year under review, the audit committee also performed the duties in selecting, identifying and assessing the capability, objectivity, effectiveness and independency of the proposed appointment as well as the remuneration and the terms of engagement of external auditors, including both ZHONGHUI ANDA CPA Limited and Prism CPA Limited.

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 (5) members, namely Mr. Kwok Ping Sun (Chair of the corporate governance committee and ED), Mr. Michael J. Hibberd (NED), Mr. Guangzhong Xing (INED), Mr. David Yi He (INED), and Mr. Alfa Li (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:- (i) review the structure, size and composition (including skill, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to review the appointment or re-appointment of Directors and senior officers, succession planning for Directors, in particular the Executive Chairman, the non-executive Vice-Chairman, Chief Executive Officer, Chief Technology Officer, Chief Financial Officer and assessing the independence of independent non-executive Directors; (iii) conduct enquiries into the backgrounds and qualifications of possible candidates. Further, the CG 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 Hong Kong Listing Rules. To recommend members and chairs of the audit committee, reserves committee and compensation committee.

Going forward, the CG Committee is expected to meet at least once a year to discharge its responsibilities.

Whenever a resolution to elect an individual as an independent non-executive Director at the general meeting, details of the process used for identifying the individual and the reasons for the Board to believe the individual should be elected and why it considers him to be independent; the perspectives, skills and experience that the individual can bring to the Board, and how the individual contributes to the diversity of the Board would be set out in the circular to the shareholders accompanying the notice of the relevant general meeting.

The CG 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 CG 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.

During the year under review, no Directors resigned or appointed. Mr. Horst Wolfgang Wunschelmeier ("Mr. Wunschelmeier") ceased to be Chief Executive Officer ("CEO") of the Company due to expiration of his employment contract, effective from August 31, 2020 (Hong Kong time). The Chief Technology Officer, Mr. Frank Chi Man Ng, was temporarily assumed direct responsibility for all CEO tasks and functions. The CG committee is in course of identifying suitable caliber to seat for the post of CEO.

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 Comp Committee currently consists of three (3) members, namely Mr. Kwok Ping Sun (Chair of the Com Committee and ED), Mr. Guangzhong Xing (INED) and Mr. Alfa Li (INED). The Comp 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:-

- (i) to determine the compensation philosophy and remuneration policy for employees and executive Directors of the Company and implement changes to improve the Company's ability to recruit, retain and motivate employees;
- (ii) to assess the performance of the executive Directors;
- (iii) to approve the terms of the executive Directors' service contracts and 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;
- (iv) to determine the specific remuneration packages of all executive Directors and certain members of senior management of the Company;
- (v) to review management's recommendations, if any, for proposed stock option or share purchase plans;
- (vi) to determine and approve the total amount of bonuses and other performance-based remuneration to be paid to officers and employees of the Company and to establish targets or criteria for the payment of such bonuses, if appropriate;
- (vii) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is consistent with relevant contractual terms and that such compensation is otherwise fair and not excessive;
- (viii) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- (ix) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year under review, the Comp Committee held a meeting to review the current size, structure and composition of the Board.

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 Res Committee currently consists of three (3) members, namely Mr. David Yi He (Chair of the Res Committee and an INED), Mr. Guangzhong Xing (INED) and Mr. Kowk Ping Sun (ED).

The primary duties of the Res Committee include (i) reviewing and approving management's recommendation for the appointment of independent evaluators; (ii) reviewing procedures for providing information to the independent evaluators; (iii) meeting with management and the independent evaluators to review the reserves data and reports; (iv) recommending to the Board whether to accept the content of the independent evaluators' report; and (v) reviewing the procedures for reporting on other information associated with oil sands producing activities and generally reviewing all public disclosure of estimates of reserves.

The Res 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. During the year under review, the Res Committee held a meeting to review the report issued by the independent valuer relating to the reserves data.

All the aforesaid Board committees make available their terms of reference explaining its role and authority delegated to them by the Board on the websites of the Hong Kong Stock Exchange and the Company. All Board committees are provided sufficient resources, retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expenses of the Company.

MEETINGS OF THE BOARD AND COMMITTEES OF THE BOARD

There were 10 meetings of the Board held during the year ended December 31, 2020. 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:

| Directors at December 31, 2020 | Board of Directors Meeting | Audit Committee Meeting | Compensation Committee Meeting | Corporate Governance Committee Meeting | Reserves Committee Meeting |
|--------------------------------|----------------------------|-------------------------|--------------------------------|--|----------------------------|
| Mr. Kwok Ping Sun | 4/10 | N/A | 1/1 | 1/1 | 0/1 |
| Mr. Michael J Hibberd | 10/10 | N/A | N/A | 1/1 | N/A |
| Ms. Gloria Ho | 10/10 | N/A | N/A | N/A | N/A |
| Ms. Linna Liu ⁽¹⁾ | 10/10 | N/A | N/A | N/A | N/A |
| Ms. Xijuan Jiang | 10/10 | N/A | N/A | N/A | N/A |
| Mr. Guangzhou Xing | 10/10 | 5/5 | 1/1 | 1/1 | 1/1 |
| Mr. Alfa Li | 10/10 | 5/5 | 1/1 | 1/1 | N/A |
| Mr. Yi He | 10/10 | 5/5 | N/A | 1/1 | 1/1 |

Note

(1) Ms. Liu's attendance hereto includes reporting representative attendance.

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 2020, 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.

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 \$3.2 million for the year ended December 31, 2020 (2019 - \$4.1 million).

Please refer to the Audited Consolidated Financial Statements as included in this annual report for additional details on remuneration of Directors.

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 Hong Kong Listing Rules.

Having made specific enquiry of all Directors, the Board confirmed the Directors have complied with the Corporate Disclosure and Trading Policy during the financial year covered by this annual report.

The interests of Directors' and Chief Executive Officer in the Company's Common Shares as at December 31, 2020 are set out in the "Directors' Report" section of this annual report.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

For the year ended December 31, 2020, the remunerations charged by the Company's external auditors for audit service and non-audit service were CDN250,000 and HKD60,000 respectively.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges that it holds responsibility for 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 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 Directors already included in a separate statement containing a discussion and analysis of the group's performance in this annual report. An explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives.

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 Hong Kong Listing Rules as well as other applicable regulations, and reports to regulators any information as required to be disclosed pursuant to statutory requirements and applicable accounting standards.

There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. The Directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary.

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, 2020, the Company reported a net profit of \$2.0 million (2019 – net loss of \$97.6 million). At December 31, 2020, the Company had a working capital deficiency of \$509.0 million (2019 - \$515.6 million) and an accumulated deficit of \$1,211 million (2019 - \$1,213 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 controls 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, 2020. The audit plans are discussed and agreed to for each year with the audit committee of the Company.

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, 2020. 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 internal management representation 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, and 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 at the end of 2020 was conducted 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.

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

The Company complies with the requirements of Securities and Futures Ordinance ("SFO") and the Hong Kong Listing Rules. The Group 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.

BOARD SECRETARY

During the year ended December 31, 2020, the Board Secretary, who is a full-time 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.

INED's names are clearly identified in all corporate communications and an updated list of directors identifying their roles and functions are maintained on the websites of the Hong Kong Stock Exchange and the Company.

The Company has not made any changes to its constitutional documents during the year ended December 31, 2020.

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. Detailed explanation about procedures for conducting a poll is provided in general meetings. Board members / committee members are welcome to answer questions at general meeting.

The next annual general meeting of shareholders of the Company was tentatively scheduled to be held in June 2021 in Hong Kong.

The Company has adopted the "Dividend Policy" concerning the payment of dividends. Pursuant to which, the Board, when deciding whether to propose a dividend and in determining the dividend amount, it will take into account, among others, (a) the Group's operations and earnings; (b) the general financial conditions of the Group; (c) cash requirements and capital expenditures; (d) any restrictions on payment of dividends; and (e) any other factors that the Board may consider relevant, etc.

The declaration and payment of dividends by the Company shall be determined at the sole discretion of the Board and shall be subject to the Company's Articles of Incorporation and By-laws, Business Corporations Act (Alberta) and any other applicable laws, rules and regulations. The Dividend Policy will be reviewed by the Board from time to time.

Details of the Dividend Policy are available on the websites of the Hong Kong Stock Exchange and the Company.

SHAREHOLDERS RIGHTS

Under the Business Corporations Act (Alberta) (the "ABCA"), the directors of a company 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, 2020 together with comparative figures for the corresponding period in 2019.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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.

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

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. As it is a non-exhaustive list, there may be other risks and uncertainties further to the disclosures. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgements or consult professionals before making any investment in the securities of the Company.

Discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group will be provided in the Environmental, Social and Governance Report which will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.com and the Company's website at www.sunshineoilsands.com soonest as possible after the publication of this Annual Report.

KEY PERFORMANCE INDICATORS

The key performance indicators are detailed in the Management's Discussion and Analysis on pages 27 to 42 of this annual report. This discussion constitutes a part of this Directors' Report.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2020, are set out in note 35 to the consolidated financial statements. The activities of these subsidiaries as at December 31, 2020 are summarized in the table below:

| Name | Place 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 * | PRC | PRC | RMB 10,000,000 | Pursuing new investment opportunities |
| 桑祥石油化工(上海)有限公司 | | | | |
| Sang Xiang (Hebei) Limited * | PRC | PRC | US\$200,000,000 | Inactive |
| 桑祥石油化工(河北)有限公司 | | | | |

* for identification purpose only

RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

The results of the Company for the financial year ended December 31, 2020 are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income included in this annual report. The Board of Directors has not recommended, declared or paid any distributions for the financial year ended December 31, 2020.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during the year ended December 31, 2020 are set out in note 13 to the consolidated financial statements.

RESERVES

Details of movements in the Company's reserves during the year ended December 31, 2020 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at December 31, 2020, reserves available for distribution to shareholders amounted to approximately \$165 million (2019: \$159 million) as shown in the statutory accounts of the Company and calculated in accordance with the Company's Articles of Incorporation.

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 Business Corporations Act (Alberta).

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended December 31, 2020 are set out in the Consolidated Statement of Changes in Equity in this annual report.

DIRECTORS

As at December 31, 2020 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*)
Ms. Gloria Pui Yun Ho (*Chief Financial Officer*)

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. David Yi He
Mr. Guangzhong Xing
Mr. Alfa Li

Biographical details of the above Directors are included in this annual report under the section headed "Directors and Senior Management".

All Directors are eligible for being re-elected at the forthcoming annual general meeting of the Company and will offer themselves to stand for re-election at the forthcoming annual general meeting of the Company.

Changes to information in respect of Directors

Save as disclosed in the section headed “Directors and Senior Management” in this annual 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 Hong Kong Listing Rules since the date of the 2020 interim report of the Company.

Directors’ Service Contracts

None of the Directors who are to be proposed for re-election at the forthcoming 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 32 to the consolidated financial statements, 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, 2020.

Indemnity and Insurance

Each 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, 2020, the interests and short positions of the Directors and the chief executives of the Company in the Common Shares and underlying shares of the Company and its associated companies (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 Hong Kong Stock Exchange (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 ⁽¹⁾ | Approximate % interest in the Common Shares ⁽¹⁾ |
|--------------------|------------------------|--------------------|---|--|
| Kwok Ping Sun | Sunshine Oilsands Ltd. | Direct/Indirect | 36,308,540 | 28.03 |
| Michael J. Hibberd | Sunshine Oilsands Ltd. | Direct/Indirect | 2,165,981 | 1.69 |
| Gloria Ho | Sunshine Oilsands Ltd. | N/A | - | - |
| David Yi He | Sunshine Oilsands Ltd. | Direct | 139,682 | 0.11 |
| Xijuan Jiang | Sunshine Oilsands Ltd. | Direct/Indirect | 104,814 | 0.08 |
| Linna Liu | Sunshine Oilsands Ltd. | N/A | - | - |
| Guangzhong Xing | Sunshine Oilsands Ltd. | N/A | - | - |
| Alfa Li | Sunshine Oilsands Ltd. | N/A | - | - |

Note

¹ As at December 31, 2020, the Company’s issued share capital is 129,554,630 Shares (after share consolidation). The Company conducted a share consolidation on the basis that every 50 existing Class “A” Common Voting Shares be consolidated into 1 Consolidated Share, effective on February 26, 2020. The aforesaid number of Shares are expressed in the adjusted new Consolidated Shares.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisting at the end of the financial year under review are set out below:-

A) *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 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, 2020, all Pre-IPO Stock Option has expired.

Post-IPO Stock Option Plan:

On January 26, 2012, the Post-IPO Stock Option Plan (the "Scheme") 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 Company completed a voluntary delisting from the TSX. As a result, the Board Directors now determines the exercise price of the Options based solely on the trading date of the Common Shares of the Company from the SEHK only.

The aggregate number of shares that may be issued under the Scheme is 601,359,617 (pre-share consolidation figure) representing 10% of Shares outstanding when the Scheme Mandate Limit was refreshed on October 31, 2018 (and representing approximately 9.28% of the Shares Outstanding as at the date of this report.)

As a result of the Share Consolidation of the Company effective on February 26, 2020, adjustments were made to the exercise prices and the number of Consolidated Shares falling to be allotted and issued upon exercise of the outstanding Options in accordance with the terms and conditions of the Scheme, Rule 17.03 (13) of the Listing Rules and the supplementary guidance dated 5 September 2005 issued by the SEHK. The adjustments to the exercise prices and the number of Consolidated Shares falling to be issued upon exercise of the outstanding Options are detailed in the announcement issued by the Company dated February 26, 2020.

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 incentivize 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

9,056,001 (representing 6.99% 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. |

During the year 2020, no Options were granted.

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, 2020, the Options held by Directors and the chief executives of the Company was as follows:

| Name | Corporation | Nature of Interest | Number of Stock Options held ⁽¹⁾ | Approximate % interest in the options |
|-----------------|------------------------|--------------------|---|---------------------------------------|
| Kwok Ping Sun | Sunshine Oilsands Ltd. | Direct | 6,933,580 | 75.93% |
| Michael Hibberd | Sunshine Oilsands Ltd. | Direct | 933,580 | 10.22% |
| Gloria Ho | Sunshine Oilsands Ltd. | Direct | 400,000 | 4.38% |
| Yi He | Sunshine Oilsands Ltd. | Direct | 150,000 | 1.64% |
| Linna Liu | Sunshine Oilsands Ltd. | Direct | - | - |
| Xijuan Jiang | Sunshine Oilsands Ltd. | Direct | 20,000 | 0.22% |
| Guangzhong Xing | Sunshine Oilsands Ltd. | Direct | 100,000 | 1.10% |
| Alfa Li | Sunshine Oilsands Ltd. | Direct | - | - |

Note

1. The number of Options held by each Director was adjusted upon the Share Consolidation effective on February 26, 2020. The aforesaid figures are expressed in post Share Consolidation.

Save as disclosed above, as at December 31, 2020, none of the Directors or the chief executives 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 companies (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 executives and other executive management of Company the during 2020.

Directors' options

| Name of Directors | Date of grant | As at January 1, 2020 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the Period | As at December 31, 2020 | Exercise price (HKD) ² | Market Closing price (HKD) ² | End of Vesting period ³ | End of Exercise period ³ |
|-------------------|-----------------|-----------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|-------------------------|-----------------------------------|---|------------------------------------|-------------------------------------|
| Gloria Ho | 12/3/2016 | 100,000 | - | - | - | - | 100,000 | 20.5 | 19.75 | 12/4/2018 | 12/3/2021 |
| | 7/5/2018 | 300,000 | - | - | - | - | 300,000 | 11.8 | 11.5 | 7/5/2020 | 7/5/2023 |
| Kwok Ping Sun | 9/23/2016 | 933,580 | - | - | - | - | 933,580 | 29.6 | 29 | 9/24/2018 | 9/23/2021 |
| | 7/5/2018 | 6,000,000 | - | - | - | - | 6,000,000 | 11.8 | 11.5 | 7/5/2020 | 7/5/2023 |
| Michael Hibberd | 9/23/2016 | 933,580 | - | - | - | - | 933,580 | 29.6 | 29 | 9/24/2018 | 9/23/2021 |
| Xijuan Jiang | 8/17/2016 | 20,000 | - | - | - | - | 20,000 | 17.5 | 17.5 | 8/18/2018 | 8/17/2021 |
| Yi He | 8/17/2016 | 20,000 | - | - | - | - | 20,000 | 17.5 | 17.5 | 8/18/2018 | 8/17/2021 |
| | 4/3/2017 | 30,000 | - | - | - | - | 30,000 | 15.5 | 14.75 | 4/4/2019 | 4/3/2022 |
| | 9/9/2019 | 100,000 | - | - | - | - | 100,000 | 3.65 | 3.6 | 9/9/2021 | 9/9/2024 |
| Guangzhong Xing | 9/9/2019 | 100,000 | - | - | - | - | 100,000 | 3.65 | 3.6 | 9/9/2021 | 9/9/2024 |
| | Subtotal | 8,537,160 | - | - | - | - | 8,537,160 | | | | |

Employees' options

| Date of grant | As at January 1, 2020 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | As at December 31, 2020 | Exercise price (HKD) ² | Market Closing price (HKD) ² | End of Vesting period ³ | End of Exercise period ³ |
|-----------------|-----------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|-------------------------|-----------------------------------|---|------------------------------------|-------------------------------------|
| 5/20/2016 | 8,388 | - | - | - | 5,180 | 3,208 | 19 | 18.25 | 5/21/2018 | 5/20/2021 |
| 8/17/2016 | 127,528 | - | - | - | 91,295 | 36,233 | 17.5 | 17.5 | 8/18/2018 | 8/17/2021 |
| 9/23/2016 | 429,400 | - | - | - | - | 429,400 | 29.6 | 29 | 9/24/2018 | 9/23/2021 |
| 4/3/2017 | 52,487 | - | - | - | 2,487 | 50,000 | 15.5 | 14.75 | 4/4/2019 | 4/3/2022 |
| 6/29/2017 | 10,724 | - | - | - | 10,724 | - | 13.05 | 12.5 | 6/30/2019 | 6/29/2022 |
| Subtotal | 628,527 | - | - | - | 109,686 | 518,841 | | | | |

Notes:

1. The Company conducted a share consolidation on the basis that every fifty (50) the then shares be consolidated into one (1) consolidated share on February 26, 2020. All numbers of share options above are adjusted on a post share-consolidation basis.
2. The exercise prices and the market closing price immediately before the date of grant of options are adjusted on a post share-consolidation basis.
3. Under the Post-IPO share option scheme, the first 1/3 of the options granted are vested and exercisable on the date of grant, and each remaining 1/3 of the total options will become vested and exercisable in each subsequent two years immediately after the date of grant. And the options will expire in five years from the date of grant.

Other than disclosed in the tables above, none of the Directors or chief executives of the Company or their related parties had any interests or short positions in any Common Shares of the Company or its associated companies as at December 31, 2020. Please refer to the consolidated financial statements (note 29) included in this annual report for additional details on our stock option plans and movements for the year ended December 31, 2020.

B) Convertible Bonds

On April 1, 2020 (Hong Kong Time), the Company issued a fixed rate convertible bonds (“CB”) in an aggregate principal amount of HK\$72,000,000 to Prime Union Enterprises Limited (the “Subscriber”), being a wholly owned company by Mr. Kwok Ping Sun, the Chairman, Executive Director and a Substantial Shareholder of the Company. The 100% of the principal amount of the CB is HK\$72,000,000 and based on the initial conversion price of HK\$0.632 per Share (subject to adjustment per the terms and conditions as stipulated in the Subscription Agreement), a maximum of 113,924,051 new Shares to be allotted and issued upon the full exercise of the CB. Details are set out in the announcement dated April 1, 2020 (Hong Kong time) issued by the Company.

The relevant resolutions relating to approving the issuance and subscription of CB were then duly passed at the special general meeting of the Company held on May 25, 2020 (Hong Kong time).

On October 16, 2020 (Hong Kong time), the Subscriber served a notice of conversion stating that it intended to convert the CB in full and it has made an application to the Securities and Futures Commission in Hong Kong (the “SFC”) seeking for a whitewash waiver (the “Whitewash Waiver”) pursuant to Note 1 on dispensations from Rule 26 of The Codes on Takeovers and Mergers and Share Buy-backs (the “Takeovers Code”) in respect of the Shares to be allotted upon conversion of the CB. The Subscriber also signed an irrevocable undertaking that it will not sell the Conversion Shares within 12 months from the date that the CB is being converted.

The Whitewash Waiver, in order to be granted by the Executive of the SFC, is subject to, among others, the Conversion being approved by more than 50% of the votes cast by the independent shareholders and the approval by at least 75% of the votes cast by the independent shareholders at general meeting of the Company by way of poll. On March 4, 2021 (Hong Kong time), the Executive has granted the Whitewash Waiver subject to:-

- (i) the Whitewash Waiver, and (ii) the Conversion being separately approved by at least 75% and more than 50% respectively of the independent vote (as defined in Note 1 on dispensations from Rule 26 of the Takeovers Code) that are cast either in person or by proxy at a general meeting of the Company, to be taken on a poll; and*
- (ii) unless the Executive gives prior consent, no acquisition or disposal of voting rights being made by the Subscriber and its concert parties between the announcement of the Proposed Conversion and the completion of the Conversion.*

The resolutions approving the conversion of CB and the Whitewash Waiver were then duly passed at the special general meeting of the Company held on March 5, 2021 (Hong Kong time).

The net proceeds received from CB was HK\$71,500,000. It was intended to apply approximately 80% of the proceeds for general working capital and the remaining 20% for repayment of debts.

On April 7, 2021, all the Conversion Shares were allotted and issued and the entire proceed were fully utilized as intended.

Substantial Shareholder’s Interests and Short Position in Common Shares and Underlying Shares

As at December 31, 2020, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executives of the Company) had an interest or short position in the Shares which would require to be disclosed by the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company:-

| Name | Nature of Interest | Common Shares Held | Approximately % in the Common Shares ⁽¹⁾ |
|-------------|---------------------------|---------------------------|--|
| Zhang Jun | Direct/Indirect | 13,881,590 | 10.71% |

The aforesaid number of shares held by the shareholder was adjusted upon the share consolidation effective on February 26, 2020.

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 five 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, 2020, none of the Directors or their respective close associates had interests in business which compete or are likely to compete, either directly or indirectly, with the business of the Company or its subsidiaries.

PENSION SCHEMES

The Company does not have a pension scheme.

LOAN

As at December 31, 2020, the Company had senior secured notes that are considered non-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”). On April 24, 2020, the Company and the Forbearing Holders signed a Forbearance Reinstatement and Amending Agreement (the “FRAA”) pursuant to which, among other matters, the period of forbearance was extended from December 31, 2019 to August 31, 2021 subject to the terms and conditions stipulated in the FRAA.

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, 2020, 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 look to expand its base of customers to obtain the best possible price for its product.

Suppliers

The largest supplier accounted for 51% of the Company’s purchases. The five largest suppliers accounted for 73% of the Company’s purchases for the year ended December 31, 2020.

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

During the year under review, the Company entered into the following connected transaction :

On April 1, 2020 (Hong Kong Time), the Company (as issuer) and a company wholly owned by Mr. Kwok Ping Sun, the Chairman, Executive Director and Substantial Shareholder of the Company, entered into a subscription agreement (the "Subscription Agreement") for subscribing convertible bonds ("CB") in an aggregate principal amount of HK\$72,000,000. With an initial conversion price of HK\$0.632 per Share, a maximum of 113,294,051 new Class "A" Common Voting Shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription was then duly passed by the independent shareholders at the Special General Meeting of the Company held on May 25, 2020 (Hong Kong time) and the Subscription was completed on June 15, 2020. The entire proceeds will be used for financing general working capital and repayment of debts.

On October 16, 2020 (Hong Kong time), the Subscriber delivered a notice of conversion to the Company stating that it intended to convert the CB in whole. The Subscriber also signed an irrevocable undertaking that it will not sell the Conversion Shares within 12 months from the date that the CB is converted.

The Subscriber has made application to the Executive of the Securities and Futures Commission of Hong Kong for the whitewash waiver (the "Whitewash Waiver") pursuant to Note 1 on dispensations from Rule 26 of The Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code") in respect of the issue of the Conversion Shares pursuant to the Subscription. The Whitewash Waiver, in order to be granted by the Executive, would be subject to, among other things, the Proposed Conversion being approved by more than 50% of the votes cast by the independent shareholders and the approval by at least 75% of the votes cast by the independent shareholders at the Special General Meeting held on March 5, 2021 (Hong Kong time) by way of poll.

On March 4, 2021 (Hong Kong time), the Executive has granted the Whitewash Waiver subject to a) (i) the Whitewash Waiver, and (ii) the Conversion being separately approved by at least 75% and more than 50% respectively of the independent vote (as defined in Note 1 on dispensations from Rule 26 of the Takeovers Code) that are cast either in person or by proxy at a general meeting of the Company, to be taken on a poll; and b) unless the Executive gives prior consent, no acquisition or disposal of voting rights being made by the Subscriber and its concert parties between the announcement of the Proposed Conversion and the completion of the Conversion. The relevant resolutions were then duly passed by on March 5, 2021 (Hong Kong time).

As at the date hereof, the entire net proceed was fully utilized as intended.

All the Independent Non-Executive Directors reviewed the terms of the CB and the Subscription Agreement; and considered that the terms and conditions stipulated therein are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

For further details, please refer to the note 17 to the consolidated financial statements.

Save as disclosed above, during the year, the Company has not entered into any connected transactions (as defined under the Hong Kong 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 32 to the consolidated financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge and belief of the Directors, as 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 Hong Kong Listing Rules during the financial year under review.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the year ended December 31, 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 2 of this annual report.

IMPORTANT EVENTS

The Board has not identified any important events affecting the Group that have occurred since the end of this financial year.

SUBSEQUENT EVENTS

Interest waiver with holders of senior notes

On February 5, 2021, the Company and the Forbearing Holders entered into an interest waiver agreement (the "Interest Waiver Agreement") pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per annum on the outstanding amounts (principal and interests) under the Forbearance Reinstatement and Amending Agreement ("FRAA") dated April 24, 2020 (the "Waiver of Interest") which amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

COVID-19 outbreak

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing in the near future or on terms favorable to the Company. The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time.

Conversion of Convertible Bonds by Executive Chairman

The Company received notice for conversion from Prime Union Enterprises Ltd on October 1, 2020 stating that it intended to convert the convertible bonds subscribed under the Subscription Agreement dated April 1, 2020 (Hong Kong time), in full. On March 4, 2021 (Hong Kong time), the Securities and Futures Commission of Hong Kong granted the whitewash waiver in this connection. The resolutions approving such conversion were duly passed at the special general meeting of the Company held on March 5, 2021 (Hong Kong time). As at the date hereof, the conversion has been completed and 113,924,051 Shares will duly issue and allotted.

INDEPENDENT AUDITOR

The financial statements have been audited by Prism CPA Ltd, who shall be eligible for appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Kwok Ping Sun

Chairman of the Board

Calgary, Alberta, March 25, 2021

Hong Kong, March 26, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine", the "Company" or "Corporation") for the three and twelve months ended December 31, 2020 is dated March 25, 2021, 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, 2020. 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 0.95 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2020 was approximately 1.63 billion barrels. 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 in production. 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. 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 plans to add an additional 5,000 barrels per day of production capacity at Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at December 31, 2020, the Company had invested approximately \$1.29 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, 2020, the Company had \$0.84 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 the steps management takes will be successful. As such, there is significant doubt and there can be no assurance that the Company will be able to continue as a going concern.

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 three and twelve months ended December 31, 2020, the Company's average bitumen production was 0 bbls/day and 247.3 bbls/day respectively. Diluent was blended at a 0% and 19.6% volumetric rate for the three and twelve month ended December 31, 2020 with the bitumen as part of the production process to create the marketable "Dilbit" blend product. The average Dilbit sales volume was 0 bbls/day and 293 bbls/day for the three and twelve months ended December 31, 2020.

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 2021. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, significant additional financing will need to be secured to proceed.

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

As at the date of this report, Muskwa has no production. Development of Godin areas is expected to be reactivated in 2021 under new ownership of Renergy, at no cost to Sunshine.

Summary of Quarterly Results

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

| (\$ thousands except per share & bbl/d) | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 (restated) | Q3 2019 | Q2 2019 | Q1 2019 |
|---|----------|---------|----------|---------|-----------------------|---------|---------|---------|
| Bitumen sales (bbl/d) | - | - | - | 871 | 1,657 | 2,130 | 2,049 | 999 |
| Petroleum sales | 78 | 266 | - | 3,840 | 9,192 | 12,691 | 14,434 | 6,017 |
| Royalties | - | - | - | 5 | 94 | 179 | 277 | 68 |
| Diluent | - | 560 | 46 | 1,236 | 3,133 | 3,345 | 3,747 | 1,491 |
| Transportation | - | 151 | (4) | 2,379 | 2,933 | 4,561 | 4,140 | 2,321 |
| Operating costs | 1,518 | 1,584 | 1,940 | 4,679 | 3,027 | 4,765 | 5,616 | 4,581 |
| Finance cost | 11,304 | 13,998 | (6,501) | 6,149 | 26,448 | 8,290 | 9,433 | 22,734 |
| Net loss/(gain) | (41,190) | 12,028 | (14,591) | 41,770 | 43,530 | 19,140 | 9,799 | 25,116 |
| Per share- basic and diluted | (0.02) | 0.09 | 0.16 | 0.32 | 0.64 | 0.33 | 0.28 | 0.21 |
| Capital expenditures ¹ | 450 | 294 | 431 | 299 | 654 | 549 | 1,095 | 342 |
| Total assets | 761,660 | 766,750 | 771,561 | 773,605 | 760,658 | 775,818 | 781,385 | 781,366 |
| Working capital deficiency ² | 509,044 | 538,179 | 260,532 | 262,004 | 515,555 | 488,052 | 489,793 | 483,933 |
| Shareholders' equity | 165,420 | 141,463 | 153,514 | 134,418 | 158,885 | 201,204 | 217,723 | 227,171 |

Includes payments for exploration and evaluation, property, plant and equipment.

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) | For the three months ended December 31, | | For the twelve months ended December 31, | |
|----------------------------------|---|----------|--|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Realized bitumen revenue | \$ 78 | \$ 6,059 | \$ 2,340 | \$ 30,618 |
| Transportation | - | (2,933) | (2,526) | (13,955) |
| Royalties | - | (94) | (5) | (618) |
| Net bitumen revenues | \$ 78 | \$ 3,032 | \$ (192) | \$ 16,045 |
| Operating costs | (1,518) | (3,027) | (9,722) | (17,989) |
| Operating cash flow ¹ | \$ (1,440) | \$ 5 | \$ (9,913) | \$ (1,944) |
| Operating netback (\$ / bbl) | - | 0.03 | (115.01) | (3.14) |

1. Operating cash flow is a non-GAAP measure which is defined in the Advisory section of this MD&A.

The Operating cash flow for the three months ended December 31, 2020 was a net loss of \$1.4 million compared to a net gain of \$0.005 million for the three months ended December 31, 2019. Operating netback gain per barrel basis was \$0.03/bbl for the three months ended December 31, 2019. The decrease in the operating cash flow per barrel was primarily due to temporary suspension of production since March 31, 2020 resulting from volatility in the international crude oil market and severe decline in crude prices.

The operating cash flow for the twelve months ended December 31, 2020 was a net loss of \$9.9 million compared to a net loss of \$1.9 million for the twelve months ended December 31, 2019. Operating netback loss per barrel basis increased by \$111.87/bbl to a loss of \$115.01/bbl from a loss of \$3.14/bbl for the year ended December 31, 2020. The increase of the operating cash flow deficiency is primarily due to year over year drop in average petroleum sales price and temporary suspension of production since March 31, 2020.

Bitumen Production

| (Barrels/day) | For the three months ended December 31 , | | For the twelve months ended December 31, | |
|--------------------|---|-------|---|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Bitumen production | - | 1,589 | 247 | 1,702 |

Bitumen production at West Ells for the three and twelve months ended December 31, 2020 averaged 0 Bbls/day and 247 Bbls/day compared to 1,589 Bbls/day and 1,702 Bbls/day for the three and twelve months ended December 31, 2019, respectively. Bitumen production decreased by 1,589 Bbls/day and 1,455 Bbls/day for the three and twelve months ended December 31, 2020 compared to the same periods in 2019 due to temporary production suspension since March 31, 2020. The Company will continue to monitor the international oil market and the development of Covid-19 pandemic in North America closely.

Bitumen Sales

| (Barrels/day) | For the three months ended December 31, | | For the twelve months ended December 31, | |
|---------------|--|-------|---|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Bitumen Sales | - | 1,657 | 236 | 1,700 |

Bitumen sales at West Ells for the three and twelve months ended December 31, 2020 averaged 0 Bbls/day and 236 Bbls/day compared to 1,657 Bbls/day and 1,700 Bbls/day for the three and twelve months ended December 31, 2019, respectively. Bitumen sales decreased by 1,657 Bbls/day for the three months ended December 31, 2020 compared to the same period of 2019 due to temporary suspension of production since March 31, 2020. For the twelve months ended December 31, 2020, bitumen sales decreased by 1,464 Bbls/day compared to the same period of 2019 due to temporary suspension of production since March 31, 2020 .

Petroleum Sales, net of royalties

| (\$ thousands, except \$/bbl) | For the three months ended December 31 , | | For the twelve months ended December 31, | |
|-------------------------------|---|----------|---|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Petroleum sales | \$ 78 | \$ 9,192 | \$ 4,184 | \$ 42,334 |
| Royalties | - | (94) | (5) | (618) |
| Balance, end of period | \$ 78 | \$ 9,098 | \$ 4,179 | \$ 41,716 |
| \$ / bbl | - | 59.69 | 48.45 | 67.22 |

Petroleum sales are from the sales of Dilbit. Petroleum sales, net of royalties for the three months ended December 31, 2020 decreased by \$9.1 million to \$0.1 million from \$9.2 million for the same period of 2019. The decrease of \$9.1 million sales (net of royalties) is mainly due to temporary suspension of production since March 31, 2020. No sales occurred in Q4 2020. \$0.1 million is the adjustment for Q3 2020.

Petroleum sales, net of royalties for the twelve months ended December 31, 2020 decreased by \$37.5 million to \$4.2 million from \$41.7 million for the twelve months ended December 31, 2019. Petroleum sales per barrel, net of royalties decreased by \$18.77/bbl to \$48.45/bbl from \$67.22/bbl for the same period of 2019. Petroleum sales net of royalties decreased by \$37.5 million primarily due to temporary suspension of production since March 31, 2020 and decline in Dilbit prices in Q1 2020 versus Q1 2019.

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. The West Ells project is currently in pre-payout. Royalties for the three and twelve months ended December 31, 2020 decreased by \$0.09 million and \$0.6 million compared to the same period of 2019. The decreases in 2020 are mainly due to significant decrease of Dilbit sales resulting from temporary suspension of production since March 31, 2020.

Bitumen Realization

| (\$ thousands, except \$/bbl) | For the three months ended December 31, | | | For the twelve months ended December 31, | | |
|---------------------------------------|--|----------|----|---|-----------|----|
| | 2020 | 2019 | | 2020 | 2019 | |
| Dilbit revenue | \$ 78 | \$ 9,192 | \$ | \$ 4,184 | \$ 42,334 | \$ |
| Diluent blended | - | (3,133) | | (1,842) | (11,716) | |
| Realized bitumen revenue ¹ | \$ 78 | \$ 6,059 | \$ | \$ 2,342 | \$ 30,618 | \$ |
| (\$ / bbl) | - | 39.75 | | 27.14 | 49.34 | |

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 months ended December 31, 2020, the Company's bitumen realization revenue decreased by \$6.0 million to \$0.1 million from \$6.1 million for the three months ended December 31, 2019. The decrease in bitumen realization revenue was primarily due to temporary suspension of production since March 31, 2020. No sales occurred in 4Q2020. \$0.1 million is the adjustment for 3Q2020.

During the twelve months ended December 31, 2020, the Company's bitumen realization revenue decreased by \$28.3 million to \$2.3 million from \$30.6 million for the same period in 2019. The bitumen realized price per barrel decreased by \$22.2/bbl to \$27.14 /bbl from \$49.34 /bbl.

Diluent Costs

| (\$ thousands, except \$/bbl and blend ratio) | For the three months ended December 31, | | | For the twelve months ended December 31, | | |
|--|--|----------|----|---|-----------|----|
| | 2020 | 2019 | | 2020 | 2019 | |
| Diluent | \$ - | \$ 3,133 | \$ | \$ 1,842 | \$ 11,716 | \$ |
| \$/bbl | - | 20.56 | | 21.38 | 18.88 | |
| Blend ratio | - | 17.8% | | 19.6% | 18.3% | |

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.

Diluent costs per barrel for the twelve months ended December 31, 2020 was \$21.38/bbl compared to \$18.88/bbl for the twelve months ended December 31, 2019. Diluent costs decreased by \$3.1 million and \$9.9 million for the three and twelve months ended December 31, 2020 and 2019 respectively were mainly due to temporary suspension of production since March 31, 2020.

Transportation

| (\$ thousands, except \$/bbl) | For the three months ended December 31, | | | For the twelve months ended December 31, | | |
|-------------------------------|--|----------|----|---|-----------|----|
| | 2020 | 2019 | | 2020 | 2019 | |
| Transportation | \$ - | \$ 2,933 | \$ | \$ 2,526 | \$ 13,955 | \$ |
| \$/ bbl | - | 19.24 | | 29.31 | 22.49 | |

Transportation costs consist of trucking costs for Dilbit and pipeline terminals fees. The transportation expense per barrel for the three months ended December 31, 2020 was \$0/bbl compared to \$19.24/bbl for the three months ended December 31, 2019. The decrease in the transportation cost per barrel for the three months ended December 31, 2020 and 2019 was due to temporary suspension of production since 31 March 2020. The transportation expense per barrel for the twelve months ended December 31, 2020 was \$29.31/bbl compared to \$22.49/bbl for the twelve months ended December 31, 2019. The increase in the transportation cost per barrel for the twelve months ended December 31, 2020 and 2019 was mainly due to increased transportation rates charged by the third party trucking companies in Q1 2020.

Operating Costs

| (\$ thousands, except \$/bbl) | For the three months ended December 31, | | | For the twelve months ended December 31, | | |
|-------------------------------|--|----------|----|---|-----------|--|
| | 2020 | 2019 | | 2020 | 2019 | |
| Energy operating costs | \$ 364 | \$ 138 | \$ | \$ 2,268 | \$ 4,141 | |
| Non-energy operating costs | 1,155 | 2,889 | | 7,453 | 13,848 | |
| Operating costs | \$ 1,519 | \$ 3,027 | \$ | \$ 9,721 | \$ 17,989 | |
| \$ / bbl | - | 19.86 | | 112.77 | 28.99 | |

Operating costs are comprised of the sum of non-energy operating costs and energy costs. Non-energy operating costs represent production-related operating activities, excluding energy operating costs. Energy operating costs represent the cost of natural gas for the production of steam and power at the West Ells facilities.

The operating expense per barrel for the twelve months ended December 31, 2020 was \$112.77/bbl compared to \$28.99/bbl for the twelve months ended December 31, 2019. For the twelve months ended December 31, 2020, the increase in operating costs per barrel from the prior period is primarily due to no production since March 31, 2020. Since the majority of the operating costs at West Ells are fixed in nature, the operating costs per barrel of production should be reduced as production resumes at West Ells.

General and Administrative Costs

| (\$ thousands) | For the three months ended December 31 , 2020 | | | | | | 2019 |
|-----------------------------------|--|-------------|----------|----------|-------------|----------|------|
| | Total | Capitalized | Expensed | Total | Capitalized | Expensed | |
| Salaries, consulting and benefits | \$ 1,092 | \$ - | \$ 1,092 | \$ 1,298 | \$ - | \$ 1,298 | |
| Rent | 142 | - | 142 | 13 | - | 13 | |
| Legal and audit | 136 | - | 136 | 92 | - | 92 | |
| Other | 1,242 | - | 1,242 | 352 | - | 352 | |
| Total | \$ 2,612 | \$ - | \$ 2,612 | \$ 1,755 | \$ - | \$ 1,755 | |

| (\$ thousands) | For the twelve months ended December 31, 2020 | | | | | | 2019 |
|-----------------------------------|--|-------------|----------|----------|-------------|----------|------|
| | Total | Capitalized | Expensed | Total | Capitalized | Expensed | |
| Salaries, consulting and benefits | \$ 5,044 | \$ - | \$ 5,044 | \$ 6,045 | \$ - | \$ 6,045 | |
| Rent | 169 | - | 169 | 297 | - | 297 | |
| Legal and audit | 455 | - | 455 | 777 | - | 777 | |
| Other | 2,641 | - | 2,641 | 1,931 | - | 1,931 | |
| Total | \$ 8,309 | \$ - | \$ 8,309 | \$ 9,050 | \$ - | \$ 9,050 | |

The Company's general and administrative costs were \$2.6 million and \$8.3 million for the three and twelve months ended December 31, 2020 compared to \$1.8 million and \$9.1 million for the three and twelve months ended December 31, 2019. General and administrative costs decreased by \$0.7 million for the twelve months ended December 31, 2020 compared to the same periods in 2019 primarily due to reduction in rent subsequent to office relocation in 2019, workforce reductions and the Company's continued focus on cost management.

Finance Costs

| (\$ thousands) | For the three months ended December 31, | | | For the twelve months ended December 31, | | |
|---|--|-----------|----|---|-----------|--|
| | 2020 | 2019 | | 2020 | 2019 | |
| Interest expense on senior notes, including yield maintenance premium | \$ 13,407 | \$ 24,865 | \$ | \$ 20,084 | \$ 61,200 | |
| Interest expense on other loans | (825) | 644 | | 3,039 | 1,832 | |
| Other interest expense | (127) | 589 | | 1,143 | 2,466 | |
| Other interest expense –lease | 67 | 64 | | 182 | 261 | |
| Unwinding of discounts on provisions | (1,218) | 286 | | 502 | 1,146 | |
| Finance costs | \$ 11,304 | \$ 26,448 | \$ | \$ 24,950 | \$ 66,905 | |

The Company's finance costs were \$11.3 million and \$25.0 million for the three and twelve months ended December 31, 2020 compared to \$26.4 million and \$66.9 million for the three and twelve months ended December 31, 2019. For the three months ended December 31, 2020, finance costs decreased by \$15.1 million compared to the same period in 2019 was mainly due to the adjustment for prior year interests and \$42 million interest waiver for 2020. For the twelve months ended December 31, 2020, finance costs decreased by \$42.0 million compared to the same period in 2019 as a result of a decrease of \$41.1 million attributed to interest expense on senior notes including YMP (which was mainly due to \$42 million interest waiver for 2020 and adjustment for prior period).

Share-based Compensation

| (\$ thousands) | For the three months ended December 31, | | | | | |
|--------------------------|---|-------------|----------|--------|-------------|----------|
| | 2020 | | | 2019 | | |
| | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Share-based compensation | \$ 253 | - | 253 | \$ 345 | - | 345 |

| (\$ thousands) | For the twelve months ended December 31, | | | | | |
|--------------------------|--|-------------|----------|----------|-------------|----------|
| | 2020 | | | 2019 | | |
| | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Share-based compensation | \$ 507 | - | 507 | \$ 1,373 | - | 1,373 |

Share-based compensation expense for the three and twelve months ended December 31, 2020 was \$0.3 million and \$0.5 million compared to \$0.3 million and \$1.4 million for the same periods in 2019. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its audited consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.

Depletion, Depreciation and Impairment

| (\$ thousands, except \$/bbl) | For the three months ended December 31, | | | | For the twelve months ended December 31, | |
|-------------------------------|---|-----------|----------|-----------|--|-----------------|
| | 2020 | | 2019 | | 2020 | 2019 (restated) |
| Depletion | \$ 62 | \$ 3,311 | \$ 2,120 | \$ 14,204 | | |
| Depreciation | 297 | 365 | 1,434 | 1,503 | | |
| Impairment | - | 16,870 | - | 16,870 | | |
| Depletion and depreciation | \$ 359 | \$ 20,546 | \$ 3,554 | \$ 32,577 | | |
| Depletion (\$ / bbl) | - | 21.73 | 24.89 | 22.89 | | |

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at that time, the Company started recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three months ended March 31, 2017. The depletion rate is based on unit-of-production.

Depletion and depreciation expense was \$0.4 million and \$3.5 million for the three and twelve months ended December 31, 2020 compared to \$20.5 million and \$32.6 million for the three and twelve months ended December 31, 2019, respectively. Depletion and depreciation expense decreased by \$20.1 million and \$29.1 million for the three and twelve months ended December 31, 2020 compared to the same periods in 2019 mainly due to no depletion in Q2, Q3 & Q4 2020 resulting from temporary suspension of production and no impairment in 2020.

As of December 31, 2020, the company did not identify any indicators of further impairment (restated \$16,870,000 impairment in 2019) of the E&E Assets or the West Ells CGU.

Exploration & Evaluation ("E&E") Asset Impairment 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 statement of profit or loss and other comprehensive income.

At December 31, 2019, the Company has identified indicators of impairment in its E&E assets attributable to declines in crude oil prices. The Company calculated the recoverable amount of the based on forecasted cash flows from proved plus probable reserves using a 10% before-tax discount rate. Based on the assessment as at December 31, 2019, the carrying amount of was higher than the recoverable amount of approximately CAD16,870,000. As such the Company has recognised an impairment loss of CAD16,870,000.

Property, Plant & Equipment (“PP&E”) Asset Impairment

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs’ expected future cash flows (after-tax). The cash flow information was derived from a report on the Group’s oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants (“GLJ”). The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ’s evaluation of the Group’s reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The pre-tax discount rates applied in the impairment calculation as at December 31, 2020 was 10% (2019: 10%) based on the specific risk to the assets.

For the year ended December 31, 2020 and 2019, the Group did not recognize an impairment loss based on its assessment that the estimated recoverable amount exceeded the carrying value.

| Year | Oilfield Costs | Exchange | WTI @Cushing \$US/bbl | WCS @ Hardisty \$/bbl | Heavy Oil 12 | | AECO Spot (\$/MMbtu) |
|-------|--|------------------|--------------------------|--------------------------|-------------------------|------|-------------------------|
| | Inflation % | 1 CAD = x USD | | | API @Hardisty \$/bbl | | |
| 2021 | 0 | 0.78 | 48.00 | 45.16 | 39.52 | 2.72 | |
| 2022 | 1 | 0.77 | 51.50 | 49.67 | 43.97 | 2.67 | |
| 2023 | 2 | 0.76 | 54.50 | 53.95 | 48.11 | 2.60 | |
| 2024 | 2 | 0.76 | 57.79 | 57.92 | 51.88 | 2.60 | |
| 2025 | 2 | 0.76 | 58.95 | 59.09 | 52.94 | 2.65 | |
| 2026 | 2 | 0.76 | 60.13 | 60.26 | 54.00 | 2.71 | |
| 2027 | 2 | 0.76 | 61.33 | 61.47 | 55.10 | 2.76 | |
| 2028 | 2 | 0.76 | 62.56 | 62.70 | 56.22 | 2.81 | |
| 2029 | 2 | 0.76 | 63.81 | 63.96 | 57.35 | 2.87 | |
| 2030 | 2 | 0.76 | 65.09 | 65.24 | 58.50 | 2.92 | |
| 2030+ | 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 and twelve months ended December 31, 2020 and 2019. 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, 2020, the Company had total available tax deductions of approximately \$1.61 billion, with unrecognized tax losses that expire between 2030 and 2039.

Liquidity and Capital Resources

| | December 31, 2020 | | December 31, 2019 (restated) | |
|----------------------------|-------------------|---------|---------------------------------|---------|
| Working capital deficiency | \$ | 509,044 | \$ | 515,555 |
| Shareholders’ equity | | 165,420 | | 158,885 |
| | \$ | 674,464 | \$ | 674,440 |

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 USD 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 Forbearing Holders. The Forbearing 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 Forbearing Holders agreed to sell up to USD 11.2 million of Senior Notes in exchange for Common Shares of Sunshine, pending on conditions.

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;
- Make principal repayments to the Forbearing 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 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 was to obtain financing of USD 5.0 million within 45 days after signing the Amended FA;
- The Company was 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, USD 5.0 million on February 1, 2018 and USD 15.0 million on May 1, 2018.

On August 1, 2018, the Company was required, amongst other matters, repay notes principal, and any previous outstanding payment commitments. Sunshine did not fulfill the repayment requirements. On October 31, 2018 (Calgary time), the Company and the Noteholders signed a Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The Forbearance was extended to August 1, 2019 (New York time);
- An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
- The Company is to obtain financing of at least USD 5.0 million by April 30, 2019 to maintain sufficient liquidity.

On April 24, 2020, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The FRAA covers the period from December 31, 2019 to August 31, 2021 ("Period of Forbearance");
- Same as the Forbearance Reinstatement and Amending Agreement executed on November 1, 2018, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2021, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

The Board believes the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to reasonable market level.

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, reporting status and undertaking certain corporate transactions.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed USD 5.0 million (the "Permitted Debt"). The Company had asked for consent from majority noteholders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from USD 5.0 million to USD 15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of December 31, 2020, the Company had incurred unsecured third party debt for a total of USD 32.0 million (CDN 40.7 million equivalent). (Permitted Debt limit is USD 15.0 million.)

The Group has presented the Notes, Loans and Bonds as a current liability on the Audited consolidated financial statement of Financial Position as at December 31, 2020.

On or around February 27, 2019, Company was required to pay CAD 0.7M into the Alberta Court of Queen's Bench and which amount was subsequently released from Court on or about October 15, 2019 in satisfaction of the creditor's judgment. The judgment is under appeal by the Company. On June 19, 2019, the Company received another notice from the Alberta Court of Queen's Bench. As a result, CAD 0.54 million of cash was to be put aside for creditor repayment subsequent to the year end. The court case was then dismissed.

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2020 municipal property taxes of CAD 10.96 million. The Group was also charged with overdue penalties of CAD 5.26 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Company has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim.

The Group is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Group's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognised if the Group determines that the loss is probable and the amount can be reasonably estimated. The Group believes it has made adequate provision for such claims. While fully supportable in the Group's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Group receives liens or claims on accounts payable balances, and the Group continues to work toward resolution of any liens or claims. At December 31, 2020, the Group had incurred CAD4.46 million in liens against them during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.2732 CAD.

The Group'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 Group manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Group's risk profile. In order to manage risk, the Group may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Group's liquidity may be adversely affected if the Group's access to the capital markets is hindered because of financial market conditions generally, or as a result of conditions specific to the Group.

For the three and twelve months ended December 31, 2020, the Group reported a net loss of \$41 million and the net profit of \$2 million, respectively. At December 31, 2020, the Group had a working capital deficiency of \$509 million including senior notes of \$252.9 million and an accumulated deficit of \$1,211.2 million.

The Group's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 78% as at December 31, 2020, compared to 79% as at December 31, 2019 (restated).

The Group is exposed to currency risks primarily through loan receivables, loans from related companies, other loans, senior notes and convertible bonds and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The foreign currencies giving rise to this risk are primarily Hong Kong dollar ("HK\$"), United States dollar ("US\$") and Renminbi ("RMB").

The following table details the Group's exposure as at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | 2020 | | | 2019 | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | HK\$ | US\$ | RMB | HK\$ | US\$ | RMB |
| | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> |
| Asset | | | | | | |
| Bank balances and cash | 440 | 1 | 379 | 577 | 1 | 25 |
| Loan receivables | 12,882 | - | - | 13,411 | - | - |
| Liabilities | | | | | | |
| Convertible bonds | (9,306) | - | - | - | (13,572) | - |
| Loan from related companies | (16,764) | - | (16,148) | (12,040) | - | (4,965) |
| Other loans | (13,204) | - | - | (14,461) | - | - |
| Senior notes | - | (252,911) | - | - | (257,999) | - |
| | (25,952) | (252,910) | (15,769) | (12,513) | (271,570) | (4,940) |

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

Commitments and Contingencies

Management estimated the contractual maturities of the Group's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Group's commitments and contingencies, please refer to the Group's Audited Consolidated Financial Statements and notes thereto for the three and twelve months period ended December 31, 2020 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2019.

Transactions with Related Parties

For the twelve months ended December 31, 2020, a consulting Group, to which a director of Sunshine is related, charged the Group CAD 0.5 million (December 31, 2019 – CAD 0.5 million) for management and advisory services.

On March 25, 2019, the Group signed a supplementary agreement with Renergy Petroleum (Canada) Co., Ltd, owned by Mr. Kwok Ping Sun, regarding the proposed Amendment of the Joint Operating Agreements on Muskwa and Godin area oil sands leases.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was completed on 15 June 2020. The entire proceeds will be used for financing general working capital and repayment of debts.

As of December 31, 2020, Mr. Kwok Ping Sun, the Group's Executive Chairman, has beneficial ownership of, or control or direction of 36,308,540 common shares of the Group that represents approximately 28.03% of the Group's outstanding common shares.

As at December 31, 2020, the Company had loans from related companies which are unsecured, interest bearing at 10% per annum, and of which approximately CAD 32,745,000 are due within one year and approximately CAD \$263,000 is repayable in 2 years.

Off-balance Sheet Arrangements

As at December 31, 2020, the Group did not have any other off-balance sheet arrangements.

Subsequent Events

Interest waiver with holders of senior notes

On February 5, 2021, the Company and the Forbearing Holders entered into an interest waiver agreement (the “Interest Waiver Agreement”) pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per annum on the outstanding amounts (principal and interests) under the Forbearance Reinstatement and Amending Agreement (“FRAA”) dated April 24, 2020 (the “Waiver of Interest”) which amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

COVID-19 outbreak

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company’s operations and its ability to raise financing in the near future or on terms favourable to the Company. The potential impact that COVID-19 will have on the Company’s business or financial results cannot be reasonably estimated at this time.

Conversion of Convertible Bonds by Executive Chairman

The Company received notice for conversion from Prime Union Enterprises Ltd (“Prime Union”) on October 1, 2020 stating that it intended to convert the convertible bonds subscribed under the Subscription Agreement dated April 1, 2020 (Hong Kong time), in full. On March 4, 2021 (Hong Kong time), the Securities and Futures Commission of Hong Kong conditionally granted the whitewash waiver in this connection. The resolutions approving such conversion were duly passed at the special general meeting of the Company held on March 5, 2021 (Hong Kong time). The Conversion was completed on April 7, 2021 and 113,924,051 Conversion Shares have been duly allotted and issued to Prim Union.

Critical Accounting Policies and Estimates

The Group’s critical accounting estimates are those estimates having a significant impact on the Group’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.

For a detailed discussion regarding to the Group’s critical accounting policies and estimates, please refer to Note 5 to the consolidated annual financial statements for the year ended December 31, 2020

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Group, their potential impact and the Group’s principal risk management strategies are substantially unchanged from those disclosed in the Group’s MD&A for the year ended December 31, 2020. The 2020 annual report of the Group will be available at the Group’s website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk.

Disclosure Controls and Procedures

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Frank Ng, who temporarily assumes direct responsibility for all CEO tasks and functions, 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 Group is made known to the Group’s 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 Group 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, 2020, the Chief Financial Officer and the interim Chief Executive Officer evaluated the design and operation of the Group's DC&P. Based on that evaluation, the Executive Director of the Board and the Chief Financial Officer and the interim Chief Executive Officer concluded that the Group's DC&P were effective as at December 31, 2020.

Internal Controls over Financial Reporting

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Frank Ng, who temporarily assumes direct responsibility for all CEO tasks and functions, 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 Group's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Group 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 Group's ICFR at December 31, 2020, and concluded that the Group's ICFR are effective at December 31, 2020 for the foregoing purpose.

No material changes in the Group's ICFR were identified during the three months and year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Group's ICFR. It should be noted that a control system, including the Group'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 "Cash flow used in operations", and therefore are considered non-GAAP measures. These non-GAAP measures are commonly used in the oil and gas industry and the Group 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 Group 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:

| (\$ thousands) | For the three months ended December 31, | | For the twelve months ended December 31, 2019 (restated) | |
|--|--|------------|---|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net cash used in operating activities | \$ 2,299 | \$ (6,682) | \$ (11,341) | \$ (16,115) |
| Add | | | | |
| Net change in non-cash operating working capital items | (5,452) | 5,411 | (5,265) | 5,202 |
| Cash flow used in operations | \$ (3,153) | \$ (1,271) | \$ (16,606) | \$ (10,913) |

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 Group hereby cautions investors about important factors that could cause the Group'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 Group'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 Group 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 Group 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 Hong Kong 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 Group is committed to maintaining high standards of corporate governance. The Group recognizes that corporate governance practices are fundamental to the effective and transparent operation of a Group and its ability to protect the rights of its shareholders and enhance shareholder value.

The Group confirms that the Code, as set out in Appendix 14 to the Hong Kong Listing Rules, has been complied with following its public listing, save that the Group has not entered into formal letters of appointment with its Directors. Consistent with the market practice in Canada, each of the Group's Directors are appointed on an annual basis by the shareholders of the Group at each annual general meeting. This is a deviation from D.1.4 of the Code.

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

The Group 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 enquiries with all directors, the directors have confirmed and compiled with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Group during the period ended December 31, 2020.

| Name | December 31, 2019 <i>Restated</i> | Granted | Exercised | Forfeited | Expired | December 31, 2020 |
|---|---|---------|-----------|-----------|---------|-------------------|
| Kwok Ping Sun | 6,933,580 | - | - | - | - | 6,933,580 |
| Michael Hibberd | 933,580 | - | - | - | - | 933,580 |
| Gloria Ho | 400,000 | - | - | - | - | 400,000 |
| Yi He | 150,000 | - | - | - | - | 150,000 |
| Linna Liu | - | - | - | - | - | - |
| Xijuan Jiang | 20,000 | - | - | - | - | 20,000 |
| Guangzhong Xing ⁽¹⁾ | 100,000 | - | - | - | - | 100,000 |
| Alfa Li | - | - | - | - | - | - |
| Sub-total for Directors | 8,537,160 | - | - | - | - | 8,537,160 |
| Sub-total for other share option holders | 628,527 | - | - | (109,686) | - | 518,841 |
| Total | 9,165,687 | - | - | (109,686) | - | 9,056,001 |

1. Mr. Guangzhong Xing was appointed to be independent non-executive Director of the Company on June 25, 2019.
2. Please refer to our consolidated financial statements included in the 2020 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2020.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended December 31, 2020 was CAD 0.6 (year ended December 31, 2019 – CAD 0.012). Options were valued 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 Group during 2020 and 2019.

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, 2020 and December 31, 2019.

| Input variables | 2020 | 2019 |
|-----------------------------|--------------|-------|
| Grant date share price (\$) | 0.60-2.00 | 0.012 |
| Exercise price (\$) | 0.60-2.00- | 0.012 |
| Expected volatility (%) | 61.88-63.91- | 63.91 |
| Option life (years) | 1.32-2.50- | 2.84 |
| Risk-free interest rate (%) | 1.48-1.95- | 1.48 |
| Expected forfeitures (%) | 15.39- | 15.39 |

Purchase, Sale or Redemption of Sunshine’s Listed Securities

Class “A” Common Shares

General mandate

2020

On January 3, 2020, the Board proposed to implement a Share Consolidation on the basis that every fifty (50) Existing Shares will be consolidated into one (1) Consolidated Share. The total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation was rounded down to a whole number by cancelling any fractional Shares of the Company arising from the Share Consolidation. The Share Consolidation was conditional upon, among other things, the approval of the Shareholders at the SGM. The Board proposed to change the board lot size for trading on the Stock Exchange from 500 Existing Shares to 1,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

On February 24, 2020, a Special General Meeting approved the Share Consolidation and the Change in Board Lot Size became effective on February 26, 2020.

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class “A” common shares at a price of HKD \$1.31 per share (post-consolidation) for gross proceeds of HKD 1,896,000 (CDN 324,000). On March 5, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party. The entire amount of proceeds raised were used for settlement of trade payables of the Company. Nil proceed was unutilized and the proceeds used commensurate with the intended use as previously stated.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds (“CB”) in an aggregate principal amount of HK\$72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class “A” common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was completed on 15 June 2020. The entire proceeds will be used for financing general working capital and repayment of debts. Nil proceed was unutilized and the proceeds used commensurate with the intended use as previously stated.

2019

On May 15, 2019, the Board of the Group approved the payment of the director fees of certain directors (the “Connected Directors”) for the period from October 1, 2017 to April 30, 2019 in shares in lieu of cash, subject to Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules. On June 24, 2019, the proposed issuance of 21,779,902 new Shares to the Connected Directors as payment of director fee has been approved by the independent shareholders at the Special General Meeting. The completion took place on July 11, 2019. An aggregate of 21,779,902 new Shares were allotted and issued to the Connected Directors at an Issue Price of HK\$0.092 (approximately CAD \$0.015 per share) per Share. The entire amount of the proceeds raised was used to pay the director fees of the Connected Directors that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated in the announcement and the circular.

On June 17, 2019, the Group entered into a subscription agreement for convertible bonds in the principal amount of USD 10.45 million (approximately CAD 13.68 million) with an independent third party. With an initial conversion price of HKD 0.0822 per share (approximately CAD 0.014 per share), a maximum of 990,347,263 Class “A” common shares will be allotted and issued upon the full conversion of the convertible bonds. The convertible bonds interest rate is 10.0% per annum and required repayment in full within two years from the issuance date. All the subscription proceeds were subsequently received on 29 July 2019. The entire proceeds were used to financing general working capital and capital expenditures for West Ells. The entire amount of proceeds raised were used for general working capital and capital expenditure for West Ells project of the Company. Nil proceeds was unutilized and the proceeds used commensurate with the intended use as previously stated.

On August 9, 2019 the Group entered into a settlement agreement for a total of 57,690,480 class “A” common shares at a price of HKD 0.077 per share for settlement of debt with an independent third party of HKD 4,442,000. On August 16, 2019 the Group completed the closing of this settlement agreement. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

On August 16, 2019, the Group entered into a settlement agreement for a total of 100,900,000 class “A” common shares at a price of HKD 0.070 per share for settlement of trade payables with an independent third party of HKD \$7,063,000. On August 22, 2019, the Group completed the closing of this settlement agreement. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

On October 11, 2019, the Group entered into a settlement agreement for a total of 37,728,000 class “A” common shares at a price of HKD 0.063 per share for settlement of trade payables with an independent third party of HKD 2,377,000. On October 17, 2019, the Group completed the closing of this settlement agreement. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

On December 5, 2019, the Group entered into a settlement agreement for a total of 51,636,500 class “A” common shares at a price of HKD 0.0524 per share for settlement of trade payables with an independent third party of HKD 2,706,000. On December 16, 2019, the Group completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

Shares Outstanding

As at December 31, 2020 the Group has 129,554,630 Class “A” common shares issued and outstanding.

Employees

As at December 31, 2020, the Group has 21 full-time employees. For the three and twelve months ended December 31, 2020, total staff costs amounted to \$1 million and \$6 million, respectively.

Dividends

The Group has not declared or paid any dividends in respect of the year ended December 31, 2020 (year ended December 31, 2019 - \$Nil).

Review of Annual Results

The audited consolidated financial statements for the Group for the three and twelve months ended December 31, 2020, were reviewed by the Audit Committee of the Company and approved by the Board.

Publication of Information

This annual results report is published on the websites of the SEHK (www.hkexnews.hk) and the Group'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 intends to continue to focus on cost controls and on carefully improving production at West Ells. The Group intends to ramp up production when the heavy oil pricing environment improves. In addition, with the receipt of Shareholder's approval for changes to the joint venture agreement and supporting agreements for the Muskwa and Godin area, the Group sees potential significant benefits resulting from re-activation of the Muskwa and Godin Area activities.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SUNSHINE OILSANDS LTD.

(Incorporated in the Province of Alberta, Canada with limited liability)

Opinion

We have audited the consolidated financial statements of Sunshine Oilsands Ltd. (the “Company”) and its subsidiaries (the “Group”) set out on pages 48 to 111, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) issued by the International Auditing and Assurance Standards Board (the “IAASB”). Our responsibilities under those standards are further described in the “*Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements*” section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to the Going Concern

We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group’s total current liabilities exceeded its total current assets by approximately CAD509,044,000 as at December 31, 2020. This conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter

The consolidated financial statements of the Group for the year ended December 31, 2019 were audited by another auditor who expressed a disclaimer opinion of exploration and evaluation assets and property, plant and equipment on those statements on March 30, 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (Continued)

Impairment assessment of Exploration and Evaluation ("E&E") Assets

Refer to note 12 to the consolidated financial statements and the accounting policies on pages 65 and 66.

The key audit matter

As at December 31, 2020, the carrying amount of the Group's E&E assets was approximately CAD256,195,000.

The management of the Company reviewed petroleum properties, which comprise different cash generating units ("CGUs"), for indicators of possible impairment or reversal of impairment by considering events or changes in circumstances. Such events and changes in circumstances included the economic impact on these CGUs resulting from fluctuation of crude oil prices, production costs and change in production and oil reserve volumes.

The management of the Company compared the carrying amount of each CGU with its recoverable amount, which was estimated by calculating the fair value less costs of disposal using a discounted cash flow forecast, to determine the amount of impairment or reversal of impairment, if any. In determining fair value less costs of disposal, the estimated future cash flows of contingent resources were discounted to their present value using a post-tax discount rate. The management of the Company applied critical judgment in determining the recoverable amount.

The preparation of discounted cash flow forecast involves the exercise of significant management judgement, particularly in estimating for the quantity of contingent resources, future commodity prices, production rates, operating expenses and development costs, as well as a discount rate. The management of the Company engages independent qualified reserves evaluators to evaluate the proved and probable oil reserves associated with the E&E assets.

We have identified the impairment assessment of the E&E assets as a key audit matter because the amount is significant to the consolidated financial statements as a whole and involve the exercise of significant management judgement in estimating the inputs in the impairment assessment models, which a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions.

How the matter was addressed in our audit

Our audit procedures were designed to perform, amongst others:

- Understanding the process and testing the design and implementation of the key controls over management's review on impairment assessment of E&E assets.
- Examining and challenging management's assessment of impairment indicators, specifically on status of the evaluation and development activities.
- Examining the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards.
- Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the management, and the methodology used by the independent qualified reserves evaluators.
- Examining the impairment assessment prepared by the management of the Company, with involving our expert to assist us in assessing whether the management's discount rate and future commodity prices, by comparing it against market data and other external data.
- Considering the disclosures in the consolidated financial statements in respect of the impairment assessment of petroleum and natural gas properties and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (Continued)

Impairment assessment of property, plant and equipment

Refer to note 13 to the consolidated financial statements and the accounting policies on pages 66 and 67.

The key audit matter

As at December 31, 2020, the carrying amount of the Group's property, plant and equipment was approximately CAD481,825,000.

The management of the Company performed impairment assessment of the property, plant and equipment by determining recoverable amount with reference to the value-in-use calculations. The value-in-use calculations were based on discounted cash flows forecast, with the use of estimates on future selling prices for crude oil, future production profiles and in determining appropriate discount rates.

We have identified the impairment assessment of the property, plant and equipment as a key audit matter because the amount is significant to the consolidated financial statements as a whole and there is involvement of a significant degree of judgements and estimates made by the management of the Company.

How the matter was addressed in our audit

The audit procedures that we performed, amongst others, included:

- Understanding the process and testing the design and implementation of the key controls over management's review on impairment assessment of property, plant and equipment.
- Examining and challenging management's assessment of impairment indicators and the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards.
- Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the Group, and the methodology used by the independent qualified reserves evaluators.
- Comparing the forecasted commodity prices used in the estimate of proved and probable reserves to those published by other reserve engineering companies.
- Comparing estimates of forecasted production, forecasted operating, royalty and capital cost assumptions used in the estimate of proved and probable reserves to historical results.
- Examining the impairment assessment prepared by the management of the Company, with involving our expert to assist us in assessing whether the management's discount rate, by comparing it against market data and other external data.
- Evaluating the disclosures in the financial statements in respect of the impairment assessment of the CGUs and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors of the Company and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Lee Kwok Lun.

Prism CPA Limited
Certified Public Accountants
Lee Kwok Lun
Practising Certificate Number: P06294

Hong Kong, March 26, 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | <i>Notes</i> | As at December 31, 2020 <i>CAD'000</i> | As at December 31, 2019 <i>CAD'000</i> <i>(restated)</i> | As at January 1, 2019 <i>CAD'000</i> |
|---|--------------|--|---|--|
| Assets | | | | |
| <i>Current assets</i> | | | | |
| Trade and other receivables | 9 | 1,636 | 5,449 | 16,665 |
| Loan receivables | 10 | - | 9,825 | - |
| Cash and cash equivalents | 11 | <u>838</u> | <u>1,254</u> | <u>583</u> |
| | | <u>2,474</u> | <u>16,528</u> | <u>17,248</u> |
| <i>Non-current assets</i> | | | | |
| Exploration and evaluation assets | 12 | 256,195 | 253,144 | 269,218 |
| Property, plant and equipment | 13 | 481,825 | 479,055 | 492,815 |
| Right-of-use assets | 14 | 1,722 | 2,084 | - |
| Other receivables | 9 | 6,562 | 6,261 | - |
| Loan receivables | 10 | <u>12,882</u> | <u>3,586</u> | <u>-</u> |
| | | <u>759,186</u> | <u>744,130</u> | <u>762,033</u> |
| Total Assets | | <u>761,660</u> | <u>760,658</u> | <u>779,281</u> |
| Liabilities and shareholders' equity | | | | |
| <i>Current liabilities</i> | | | | |
| Trade and accrued liabilities | 15 | 223,711 | 247,603 | 183,137 |
| Loans from related companies | 18 | 32,745 | 12,622 | - |
| Other loans | 16 | 1,158 | 12,793 | 24,462 |
| Senior notes | 16 | 252,911 | 257,999 | 270,990 |
| Lease liabilities | 14 | <u>993</u> | <u>1,066</u> | <u>-</u> |
| | | <u>511,518</u> | <u>532,083</u> | <u>478,589</u> |
| <i>Non-current liabilities</i> | | | | |
| Convertible bonds | 17 | 9,306 | 13,572 | - |
| Loans from related companies | 18 | 263 | 4,383 | - |
| Other loans | 16 | 13,204 | 1,668 | - |
| Lease liabilities | 14 | 801 | 1,157 | - |
| Provisions | 19 | <u>61,148</u> | <u>48,910</u> | <u>48,739</u> |
| | | <u>84,722</u> | <u>69,690</u> | <u>48,739</u> |
| Total liabilities | | <u>596,240</u> | <u>601,773</u> | <u>527,328</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | <i>Notes</i> | As at December 31, 2020 <i>CAD'000</i> | As at December 31, 2019 <i>CAD'000</i> <i>(restated)</i> | As at January 1, 2019 <i>CAD'000</i> |
|---|--------------|--|---|--|
| Shareholders' equity | | | | |
| Share capital | 20 | 1,296,814 | 1,296,523 | 1,293,379 |
| Convertible bonds equity reserve | 17 | 4,170 | - | |
| Reserve for share-based compensation | | 76,411 | 75,904 | 74,531 |
| Exchange fluctuation reserve | | (412) | - | |
| Accumulated deficit | | <u>(1,211,241)</u> | <u>(1,213,469)</u> | <u>(1,115,957)</u> |
| Equity attributable to owners of the Company | | 165,742 | 158,958 | 251,953 |
| Non-controlling interests | | <u>(322)</u> | <u>(73)</u> | <u>-</u> |
| Total shareholders' equity | | <u>165,420</u> | <u>158,885</u> | <u>251,953</u> |
| Total liabilities and shareholders' equity | | <u>761,660</u> | <u>760,658</u> | <u>779,281</u> |
| Going concern | 2 | | | |
| Commitments and contingencies | 33 | | | |
| Subsequent events | 38 | | | |

The consolidated financial statements on pages 48 to 111 were approved and authorised for issue by the board of directors on March 26, 2021 and are signed on its behalf by:

David Yi He,
Independent Non-Executive Director

Kwok Ping Sun,
Executive Director

The accompanying notes form part of these annual consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31

| | Notes | 2020 <i>CAD'000</i> | 2019 <i>CAD'000</i> |
|---|-------|-------------------------------|-------------------------------|
| Revenue | 21 | 4,179 | 41,716 |
| Other income | 23 | <u>50,201</u> | <u>14,264</u> |
| | | <u>54,380</u> | <u>55,980</u> |
| Expenses | | | |
| Diluent costs | | (1,842) | (11,716) |
| Transportation costs | | (2,526) | (13,955) |
| Operating costs | | (9,721) | (17,989) |
| Depletion and depreciation | 13,14 | (3,554) | (15,707) |
| Impairment loss on financial assets | | (988) | - |
| Impairment losses on exploration and evaluation assets | 12 | - | (16,870) |
| General and administrative costs | | (8,309) | (9,050) |
| Finance costs | 24 | (24,950) | (66,905) |
| Share-based compensation | 29 | <u>(507)</u> | <u>(1,373)</u> |
| | | <u>(52,397)</u> | <u>(153,565)</u> |
| Profit (loss) before income tax | | 1,983 | (97,585) |
| Income tax expenses | 30 | <u>-</u> | <u>-</u> |
| Profit (loss) for the year | 25 | <u>1,983</u> | <u>(97,585)</u> |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | 2,228 | (97,512) |
| Non-controlling interests | | <u>(245)</u> | <u>(73)</u> |
| | | <u>1,983</u> | <u>(97,585)</u> |
| Other comprehensive expense | | | |
| <i>Items that will not be reclassified subsequently to profit of loss</i> | | | |
| Exchange differences arising on translation of financial statements from functional currency to presentation currency | | <u>(416)</u> | <u>-</u> |
| Other comprehensive expense for the year | | <u>(416)</u> | <u>-</u> |
| Total comprehensive income (expense) for the year | | <u>1,567</u> | <u>(97,585)</u> |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | 1,816 | (97,512) |
| Non-controlling interests | | <u>(249)</u> | <u>(73)</u> |
| | | <u>1,567</u> | <u>(97,585)</u> |
| Earnings (loss) per share | | | |
| Basic and diluted (CAD cents) | 26 | <u>1.72</u> | <u>(1.57)</u> |

The accompanying notes form part of these annual consolidated financial Statement

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2020

| | Notes | <u>Attributable to owners of the Company</u> | | | | | <u>Total</u> | <u>Non-controlling interests</u> | <u>Total Equity</u> |
|---|-------|--|---|---|-------------------------------------|----------------------------|----------------|----------------------------------|---------------------|
| | | <u>Share Capital</u> | <u>Convertible bonds equity reserve</u> | <u>Reserve for share-based compensation</u> | <u>Exchange fluctuation reserve</u> | <u>Accumulated Deficit</u> | | | |
| | | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | <u>CAD'000</u> | |
| Balance at January 1, 2020, as originally stated (audited) | | 1,296,523 | - | 75,904 | - | (1,196,599) | 175,828 | (73) | 175,755 |
| Prior year adjustments | 3 | - | - | - | - | (16,870) | (16,870) | - | (16,870) |
| Balance at January 1, 2020, as restated | | 1,296,523 | - | 75,904 | - | (1,213,469) | 158,958 | (73) | 158,885 |
| Profit for the year | | - | - | - | - | 2,228 | 2,228 | (245) | 1,983 |
| Other comprehensive income (expense) | | | | | | | | | |
| Items that will not be reclassified subsequently to profit of loss | | | | | | | | | |
| - Exchange differences arising on translation of financial statements from functional currency to presentation currency | | - | - | - | (412) | - | (412) | (4) | (416) |
| Total comprehensive (expense) income for the year | | - | - | - | (412) | 2,228 | 1,816 | (249) | 1,567 |
| Issue of common shares | 20 | 324 | - | - | - | - | 324 | - | 324 |
| Issue of convertible bonds | 17 | - | 4,170 | - | - | - | 4,170 | - | 4,170 |
| Recognition of equity-settled share-based payments | 29 | - | - | 507 | - | - | 507 | - | 507 |
| Share issue costs, net of deferred tax | 20 | (33) | - | - | - | - | (33) | - | (33) |
| Balance at December 31, 2020 | | <u>1,296,814</u> | <u>4,170</u> | <u>76,411</u> | <u>(412)</u> | <u>(1,211,241)</u> | <u>165,742</u> | <u>(322)</u> | <u>165,420</u> |

The accompanying notes form part of these annual consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31

| | Notes | Attributable to owners of the Company | | | | | | | Non-controlling interests | Total Equity |
|--|-------|---------------------------------------|----------------------------------|--------------------------------------|------------------------------|---------------------|----------|---------|---------------------------|--------------|
| | | Share Capital | Convertible bonds equity reserve | Reserve for share-based compensation | Exchange fluctuation reserve | Accumulated Deficit | Total | | | |
| | | CAD'000 | CAD'000 | CAD'000 | CAD'000 | CAD'000 | CAD'000 | CAD'000 | | |
| Balance at January 1, 2019 | | 1,293,379 | - | 74,531 | - | (1,115,957) | 251,953 | - | 251,953 | |
| Loss and total comprehensive expense for the year | | - | - | - | - | (80,642) | (80,642) | (73) | (80,715) | |
| Issue of common shares | 20 | 2,812 | - | - | - | - | 2,812 | - | 2,812 | |
| Issue of shares under Director Share Arrangement | 20 | 344 | - | - | - | - | 344 | - | 344 | |
| Recognition of equity-settled share-based payments | 29 | - | - | 1,373 | - | - | 1,373 | - | 1,373 | |
| Share issue costs, net of deferred tax | 20 | (12) | - | - | - | - | (12) | - | (12) | |
| Balance at December 31, 2019 | | 1,296,523 | - | 75,904 | - | (1,196,599) | 175,828 | (73) | 175,755 | |

The accompanying notes form part of these annual consolidated financial statement

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

| | 2020 | 2019 |
|--|-----------------|-------------------------------------|
| | <i>CAD'000</i> | <i>CAD'000</i> <i>(restated)</i> |
| Operating activities | | |
| Profit (loss) before income tax | 1,983 | (97,585) |
| Adjustments for: | | |
| Finance costs | 24,950 | 66,905 |
| Loss on disposal of property, plant and equipment | 1,026 | - |
| Income from over-provision of trade payable | (326) | (223) |
| Unrealised foreign exchange (gain) loss | (6,209) | (13,952) |
| Income from waived of interest expense on senior notes, including yield maintenance premium | (42,992) | - |
| Gain on derecognition of right-of-use and lease liabilities | (82) | - |
| Interest income | (5) | (8) |
| Depletion, depreciation and impairment | 3,554 | 15,707 |
| Impairment losses on exploration and evaluation assets | - | 16,870 |
| Impairment loss on financial assets | 988 | - |
| Share-based compensation | 507 | 1,373 |
| | <hr/> | <hr/> |
| Operating cash flows before movements in working capital | (16,606) | (10,913) |
| Decrease in trade and other receivables | 1,983 | 8,680 |
| Decrease (increase) in prepaid expenses and deposits | 1,542 | (3,726) |
| Decrease (increase) in trade and accrued liabilities | 1,740 | (10,156) |
| | <hr/> | <hr/> |
| Net cash used in operating activities | (11,341) | (16,115) |
| | <hr/> | <hr/> |
| Investing activities | | |
| Payments for exploration and evaluation assets | (1,077) | (979) |
| Payments for property, plant and equipment | (397) | (1,660) |
| Proceeds from sale of property, plant and equipment | 3,762 | - |
| Interest received | 5 | 8 |
| | <hr/> | <hr/> |
| Net cash generated from (used in) investing activities | 2,293 | (2,631) |
| | <hr/> | <hr/> |

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER, 31

| | 2020 | 2019 |
|---|----------------|-------------------------------------|
| | <i>CAD'000</i> | <i>CAD'000</i> <i>(restated)</i> |
| Financing activities | | |
| Payments for share issue costs | (33) | (12) |
| Payment for finance costs | (2,412) | (1,266) |
| Proceeds from convertible bonds | - | 13,677 |
| Proceeds from other loans | 104 | 7,619 |
| Repayment of other loans | (3,678) | (16,933) |
| Proceeds from related companies' loans | 17,605 | 18,510 |
| Repayment of related companies' loans | (1,972) | (1,243) |
| Repayment of lease liabilities | (963) | (1,225) |
| Net cash generated from financing activities | 8,651 | 19,127 |
| Net (decrease) increase in cash and cash equivalents | (397) | 381 |
| Cash and cash equivalents, beginning of year | 1,254 | 583 |
| Effect of foreign exchange rate changes | (19) | 290 |
| Cash and cash equivalents, end of year | 838 | 1,254 |

The accompanying notes form part of these annual consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE INFORMATION

Sunshine Oilsands Ltd. (the “Company”) was incorporated under the laws of the Province of Alberta on February 22, 2007. Its ultimate controlling party is Mr. Sun Kwok Ping (“Mr. Sun”). The address of its principal place of business is 1100, 700 – 6th Avenue S.W., Calgary, Alberta, Canada T2P 0T8. 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.

The Group is engaged in the evaluation and the development of oil properties for the future production of crude oil products in the Athabasca oilsands region in Alberta, Canada. Details of the subsidiaries are set out in note 35.

The consolidated financial statements are presented in Canadian Dollars (“CAD”) which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF CONSOLIDATION FINANCIAL STATEMENTS

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 effects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 6.

As at December 31, 2020, the Group’s total current liabilities exceeded its total current assets by approximately CAD509,044,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group’s future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

- . The ultimate controlling party, Mr. Sun, has agreed to provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due for the foreseeable future;
- . The senior notes holders with the aggregate principal and accrued interest amount of approximately US\$312,007,000 (equivalent to approximately CAD397,247,000), has agreed to provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due for the foreseeable future;
- . The Group is expected to generate adequate cash flows to maintain its operations; and
- . The directors have reviewed the Group’s cash flow projections which cover a period of not less than twelve months for the twelve months ending December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

In view of the above, the directors of the Company are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the directors of the Company have prepared the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the directors of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows in the near future and obtain the continuous financial support from its ultimate controlling parties and senior note holders.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these financial statements.

3. PRIOR YEAR ADJUSTMENTS

The effects of prior year adjustments on the Group's consolidated financial position as at December 31, 2019 and the results for the year ended December 31, 2019 are as follows:

The Group and the Company

Consolidated statement of profit or loss and other comprehensive income

| | For the year ended December 31, 2019 | | | As restated CAD'000 |
|---|--------------------------------------|--------------------------------------|------|------------------------|
| | As originally stated CAD'000 | Prior year adjustments CAD'000 | Note | |
| Impairment loss on exploration and evaluation assets | - | (16,870) | (a) | (16,870) |

Statement of profit or loss and other comprehensive income

| | For the year ended December 31, 2019 | | | As restated CAD'000 |
|---|--------------------------------------|--------------------------------------|------|------------------------|
| | As originally stated CAD'000 | Prior year adjustments CAD'000 | Note | |
| Impairment loss on exploration and evaluation assets | - | (16,870) | (a) | (16,870) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Consolidated statement of financial position

| | As at December 31, 2019 | | | |
|-----------------------------------|-------------------------|------------------------|-------|-------------|
| | As originally stated | Prior year adjustments | Notes | As restated |
| | CAD'000 | CAD'000 | | CAD'000 |
| Non-current assets | | | | |
| Exploration and evaluation assets | 270,014 | (16,870) | (a) | 253,144 |
| Shareholders' equity | | | | |
| Accumulated deficit | (1,196,599) | (16,870) | (a) | (1,213,469) |

Statement of financial position

| | As at December 31, 2019 | | | |
|-----------------------------------|-------------------------|------------------------|-------|-------------|
| | As originally stated | Prior year adjustments | Notes | As restated |
| | CAD'000 | CAD'000 | | CAD'000 |
| Non-current assets | | | | |
| Exploration and evaluation assets | 270,008 | (16,870) | (a) | 253,138 |
| Shareholders' equity | | | | |
| Accumulated deficit | (1,187,475) | (16,870) | (a) | (1,204,345) |

Note:

- a) Adjustment to recognise the impairment loss on exploration and evaluation assets approximately of CAD16,870,000.

The directors of the Company have identified that the decline in crude oil prices has sustained for a period of time during 2020 and could not be regarded as temporary. As such, the directors considered to reassess the impairment assessment of exploration and evaluation assets and property, plant and equipment for the year ended December 31, 2019. The directors of the Company prepared a revised discount cash flow model in determining the recoverable amount of exploration and evaluation assets and property, plant and equipment for the year ended December 31, 2019 and December 31, 2020. The directors of the Company became aware of the impairment loss of the exploration and evaluation assets of approximately CAD16,870,000 and no impairment loss of the property, plant and equipment during the year ended December 31, 2019. Detail disclosed in notes 12 and 13 respectively to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied for the first time the following new and amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”).

| | |
|---|--|
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |

The application of other new and amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

| | |
|---|--|
| IFRS 17 | Insurance Contracts ³ |
| Amendments to IFRS 16 | COVID-19 - Related Rent Concessions ⁵ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture ⁴ |
| Amendments to IAS 39, IFRS4, IFRS 7, IFRS 9 and IFRS 16 | Interest Rate Benchmark Reform - Phase 2 ¹ |
| Amendments to IFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to IAS 16 | Property, Plant and Equipment - Proceeds before Intended Use ² |
| Amendments to IAS 37 | Onerous contracts: Cost of fulfilling a contract ² |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies ³ |
| Amendments to IAS 8 | Definition of Accounting Estimates ³ |
| Amendments to IAS 1 | Classification of liabilities as Current or Non-current ³ |
| Amendments to IFRSs | Annual Improvements to IFRS 2018 - 2020 cycle ² |

¹ Effective for annual periods beginning on or after January 1, 2021

² Effective for annual periods beginning on or after January 1, 2022

³ Effective for annual periods beginning on or after January 1, 2023

⁴ Effective date not yet been determined

⁵ Effective for annual periods beginning on or after June 1, 2020

The directors of the Company anticipate that, the application of the new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Company Ordinance.

The consolidated financial statements have been prepared on historical cost basis, except for financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the Group's returns.

When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Revenue from contracts with customers

Revenue from the sale of crude oil products is recognised based on the consideration specified in contracts with customers and when control of the product transfers to the customer and collection is reasonably assured. The crude oil products revenue is based on floating prices specified in the contract and the revenue is recognised when it transfers control of the product to a customer. The sales or transaction price of the Group's crude oil products to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalisation adjustments. The revenue is collected on the 25th day of the month following sales.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leasing

Definition of a lease

Under IFRS 16 *Leases*, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

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- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 *Provision, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient for all leases.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. CAD) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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 capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs and termination benefits

Payments to the defined contribution plans, state-managed retirement benefit schemes, the Mandatory Provident Fund Scheme (the "MPF scheme") and the Employee Provident Fund (the "EPF scheme") and Canada Pension Plan ("CPP") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 Group 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 utilise 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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

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Oil and natural gas exploration and development expenditures

Exploration and evaluation ("E&E") 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, E&E 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 capitalised as 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 capitalised as E&E assets and charged to consolidated statement of profit or loss and other comprehensive income upon the expiration of the lease, impairment of the asset or management's determination that no further E&E 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 include production facilities.

The decision to transfer assets from E&E to development and producing assets (included in property, plant and equipment) 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 amortisation is charged during the E&E phase.

Impairment

If no economically recoverable reserves are found upon evaluation, the E&E assets are tested for impairment and the difference between the carrying amount and the recoverable amount are charged to the consolidated statement of profit or loss and other comprehensive income. 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.

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 statement of profit or loss and other comprehensive income.

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.

Property, plant and equipment

Property, plant and equipment comprises mainly computers and office equipment and development and production assets (includes crude oil products assets). The initial cost of a property, plant and equipment consists

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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. Property, plant and equipment are carried at cost less the total of accumulated depletion, depreciation and impairment losses.

Turnaround costs

Turnaround costs, which are the costs related to the turnaround 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 profit and loss and other comprehensive income.

Maintenance and repairs

Major repairs and maintenance consist 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 capitalised and depreciated over the remaining life of the asset. The net carrying value of the asset or substantial part being replaced is derecognised at the time the replacement is capitalised. All other maintenance costs are expensed as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depletion of development and production costs (crude oil products assets), included in property, plant and equipment, 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.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|-----------|
| Office furniture, equipment, computers and vehicles | 20% - 30% |
|---|-----------|

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an

item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing 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 risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the cost of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (“FVTOCI”) and fair value through profit or loss (“FVTPL”).

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The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 23).

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost as well as financial guarantee. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

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- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written-off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group 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

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another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Modification of financial liabilities

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Convertible bonds

Convertible bonds contains liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity ("convertible bonds equity reserve").

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in "convertible bonds equity reserve" until the embedded option is exercised (in which case the balance stated in "convertible bonds equity reserve" will be transferred to share capital. Where the option remains unexercised at the expiry date, the balance stated in "convertible bonds equity reserve" will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Provisions

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

Provisions including decommissioning costs are measured at 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. When 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 (where the effect of the time value of money is material).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Group 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.

Equity-settled share-based payment transactions

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.

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 recognised share-based compensation associated with such instrument is not reversed. If unvested instruments are forfeited, previously recognised share-based compensation is reversed.

The Group 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.

Fair value measurement

When measuring fair value except value in use of exploration and evaluation assets, property, plant and equipment and right-of-use assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 on-going 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.

Critical judgements in applying the entity's accounting policies

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

Going concern

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the financial statements. The assessment of the going concern assumption involves making a judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption are set out in note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 Group's development and production assets are determined using proved plus probable reserves.

Depletion and impairment of property, plant and equipment

The amounts recorded for depletion and impairment of property, plant and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future oil prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Group's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under the Canadian Oil and Gas Evaluation Handbook ("COGEH"). Changes in reserve estimates impact the financial results of the Group as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The decision to transfer exploration and evaluation assets to property, plant and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

For impairment testing, property, plant and equipment and exploration and evaluation assets are aggregated into CGUs, based on management's judgment in defining the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate company and industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of oil and production profile. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future oil prices and production profile.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Decommissioning costs

A provision is required to be recognised for the future retirement obligations associated with the Group's assets. The decommissioning provision is based on estimated costs, taking into account of 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.

Allowance recognised in respect of trade and other receivables and loan receivables

The impairment provisions for trade and other receivables and loan receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at December 31, 2020, the carrying amounts of trade and other receivables and loan receivables are approximately CAD2,426,000 (2019: CAD4,776,000) and CAD12,882,000 (2019: CAD13,411,000) respectively, with accumulated loss allowance on trade and other receivables and loan receivables of approximately CAD176,000 (2019: nil) and CAD812,000 (2019: nil) respectively.

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.

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.

7. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes other loans and senior notes in note 16, convertible bonds disclosed in note 17, loans from related companies in note 18, net of cash and cash equivalents disclosed in note 11 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and issue of new debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

8. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|-----------------|
| | <i>CAD '000</i> | <i>CAD '000</i> |
| Financial assets | | |
| Financial assets at amortised cost (including cash and cash equivalents) | 21,474 | 24,186 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | 535,092 | 552,863 |

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivables, cash and cash equivalents, trade and accrued liabilities, lease liabilities, loans from related companies, other loans, senior notes and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not use any derivative financial instruments to mitigate these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

Market risk is the risk that changes in market prices will affect the Group'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 Group's objectives, policies or processes to manage market risks.

(a) Price risk

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 crude oil products are impacted by world economic events that dictate the levels of supply and demand. The Group has not attempted to mitigate commodity price risk through the use of various financial derivative or physical delivery sales contracts.

(b) Currency risk

The Group is exposed to currency risks primarily through loan receivables, loans from related companies, other loans, senior notes and convertible bonds and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The foreign currencies giving rise to this risk are primarily Hong Kong dollar ("HK\$"), United States dollar ("US\$") and Renminbi ("RMB").

The following table details the Group's exposure as at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

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| | 2020 | | | 2019 | | |
|-----------------------------|----------|-----------|----------|----------|-----------|---------|
| | HK\$ | US\$ | RMB | HK\$ | US\$ | RMB |
| | CAD'000 | CAD'000 | CAD'000 | CAD'000 | CAD'000 | CAD'000 |
| Asset | | | | | | |
| Bank balances and cash | 440 | 1 | 379 | 577 | 1 | 25 |
| Loan receivables | 12,882 | - | - | 13,411 | - | - |
| | | | | | | |
| Liabilities | | | | | | |
| Convertible bonds | (9,306) | - | - | - | (13,572) | - |
| Loan from related companies | (16,764) | - | (16,148) | (12,040) | - | (4,965) |
| Other loans | (13,204) | - | - | (14,461) | - | - |
| Senior notes | - | (252,911) | - | - | (257,999) | - |
| | (25,952) | (252,910) | (15,769) | (12,513) | (271,570) | (4,940) |

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

Sensitivity Analysis

The following table details the Group's sensitivity to a 5% (2019: 5%) increase or decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative number below indicates a decrease (2019: an increase) in pre-tax profit (2019: pre-tax loss) where respective functional currency weakened 5% (2019: 5%) against the relevant foreign currency. For a 5% (2019: 5%) strengthening of respective functional currency against the relevant foreign currency, there would be an equal and opposite impact on the pre-tax profit (2019: pre-tax loss) and the balances below would be negative.

| | Effect on profit or loss | |
|------|--------------------------|---------|
| | 2020 | 2019 |
| | CAD'000 | CAD'000 |
| | | |
| HK\$ | (947) | (457) |
| US\$ | (9,231) | (9,912) |
| RMB | (576) | (180) |

(b) Interest risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances carried at prevailing market rates. The Group also exposed to fair value interest rate risk in relation to fixed-rate restricted bank balance and obligation under a finance lease. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group's exposure to interest rate risk in relation to variable-rate bank balances is minimal due to short-term maturities, hence, no sensitivity analysis is prepared.

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Credit risk

As at December 31, 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge all obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from trade and other receivables, loan receivables, and cash and cash equivalents. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables, the Group has applied the simplified approach in IFRS 9 Financial Instruments to measure the loss allowance at lifetime ECL. The Group determines the ECL on an collectively basis by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating result of the borrower;
- significant increase in credit risk on other financial instruments of the borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognising ECL |
|-----------------|---|------------------------------------|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12- month ECL |
| Doubtful | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2) | Lifetime ECL – not credit impaired |
| Default | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3) | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written-off |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

| Notes | Internal credit rating | 12-month or lifetime ECL | 2020 | | | 2019 | | |
|-------------------|------------------------|------------------------------------|-----------------------|----------------|---------------------|-----------------------|----------------|---------------------|
| | | | Gross carrying amount | Loss allowance | Net carrying amount | Gross carrying amount | Loss allowance | Net carrying amount |
| | | | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 | US\$ '000 |
| Trade receivables | 9 (Note) | Lifetime ECL (simplified approach) | - | - | - | 2,595 | - | 2,595 |
| Other receivables | 9 Performing | 12-month ECL | 2,602 | (176) | 2,426 | 2,181 | - | 2,181 |
| Loan receivables | 10 Performing | 12-month ECL | 13,694 | (812) | 12,882 | 13,411 | - | 13,411 |
| | | | | (988) | | | - | |

Note: For trade receivables, the Group has applied the simplified approach in IFRS 9 *Financial Instruments* to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 8 includes further details on the loss allowance for these assets respectively.

The Group has concentration of credit risk as 100% (2019: 100%) and 100% (2019: 100%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively as at December 31, 2020 and December 31, 2019.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group'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.

The maturity analysis of the Group's financial liabilities is as follows:

| | Weighted average effective interest rate | Within one year or on demand | More than 1 year but less than 2 years | More than 2 year but less than 5 years | Total contractual undiscounted cash flows | Carrying value |
|-------------------------------|--|------------------------------|--|--|---|----------------|
| | | CAD '000 | CAD '000 | CAD '000 | CAD '000 | CAD '000 |
| At December 31, 2020 | | | | | | |
| Trade and accrued liabilities | N/A | 223,711 | - | - | 223,711 | 223,711 |
| Convertible bonds | 8% | - | 12,066 | - | 12,066 | 9,306 |
| Loans from related companies | 10% | 35,387 | 88 | 222 | 35,697 | 33,008 |
| Other loans | 2% | 1,436 | 13,204 | - | 14,640 | 14,362 |
| Senior notes | 10% | 269,751 | - | - | 269,751 | 252,911 |
| Lease liabilities | 10% | 1,101 | 606 | 240 | 1,947 | 1,794 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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| | | | | | | |
|-------------------------------|-----|----------------|--------------|---------------|----------------|----------------|
| | | 531,386 | 25,964 | 462 | 557,812 | 535,092 |
| At December 31, 2019 | | | | | | |
| Trade and accrued liabilities | N/A | 247,603 | - | - | 247,603 | 247,603 |
| Convertible bonds | 10% | - | - | 15,558 | 15,558 | 13,572 |
| Loans from related companies | 10% | 13,884 | 4,754 | 438 | 19,076 | 17,005 |
| Other loans | 2% | 13,045 | - | 1,668 | 14,713 | 14,461 |
| Senior notes | 10% | 283,799 | - | - | 283,799 | 257,999 |
| Lease liabilities | 9% | 1,206 | 867 | 375 | 2,448 | 2,223 |
| | | <u>559,537</u> | <u>5,621</u> | <u>18,039</u> | <u>583,197</u> | <u>552,863</u> |

9. TRADE AND OTHER RECEIVABLES

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|----------------|-------------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| | | <i>(restated)</i> |
| Trade receivables | - | 2,595 |
| Other receivables (note a) | 2,602 | 2,181 |
| Deposits (note b) | 5,328 | 4,745 |
| Prepayments | 444 | 2,189 |
| | <u>8,374</u> | <u>11,710</u> |
| Less: loss allowance (notes c and d) | <u>(176)</u> | <u>-</u> |
| | <u>8,198</u> | <u>11,710</u> |
| Analysed as: | | |
| Current assets | 1,636 | 5,449 |
| Non-current assets | <u>6,562</u> | <u>6,261</u> |
| | <u>8,198</u> | <u>11,710</u> |

Notes:

- (a) As at December 31, 2020, included in other receivables, amount of approximately CAD1,999,000 (net of allowance of approximately CAD145,000) (2019: CAD1,889,000 with no allowance) represented the amount due from Renegy Petroleum (Canada) Co., Ltd., which Mr. Kwok Ping Sun and Nobao Energy Holding (China) Company Limited* 挪寶能源控股(中國)有限公司 (“Nobao Energy (China)”), a company under the control of Mr. Sun, has conditionally acquired Changjiang’s interest in. The amount is unsecured, interest-free and repayment on demand.
- (b) As at December 31, 2020, included in deposits, amount of approximately CAD4,563,000 (2019: CAD4,372,000) represented the deposits paid for the occupation permit on a land situated in the People’s Republic of China (the “PRC”). The Group is in the process of applying the title documents of certain rights of occupation permit. The directors of the Company believe that title documents will be obtained on due course without sufficient additional costs in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

- (c) The Group measures the loss allowance for other receivables at an amount equal to 12-month ECL. The Group recognised 12-month ECL for other receivables based on the internal credit rating of receivables as follows:

| | Expected loss rate | Gross carrying amount | Loss allowance |
|-------------------------|-------------------------------|----------------------------------|-----------------------|
| | % | CAD'000 | CAD'000 |
| As at December 31, 2020 | | | |
| Performing | 6.76% | <u>2,602</u> | <u>176</u> |

As at December 31, 2019, the directors of the Company considered the ECL on other receivables was insignificant.

* For identification purpose only

- (d) The movement in the loss allowance for other receivables is set out below:

| | 2020 | 2019 |
|---|-------------|-----------------------|
| | CAD'000 | CAD'000 (restated) |
| At January 1 | - | - |
| Loss allowance recognised in profit or loss during the year | <u>176</u> | <u>-</u> |
| At December 31 | <u>176</u> | <u>-</u> |

The Group allows an average credit period of 30 days to its trade customers. The Group transacts with oil marketing companies, and the marketing companies typically remit amounts to the Group by the 25th day of the month following sales.

The following is an aged analysis of trade receivables based on the invoice date at the end of the reporting period:

| | 2020 | 2019 |
|----------------|-------------|--------------|
| | CAD'000 | CAD'000 |
| Within 30 days | <u>-</u> | <u>2,595</u> |

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

As at December 31, 2020 and 2019, the directors of the Company considered the ECL on trade receivables was insignificant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. LOAN RECEIVABLES

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|-----------------|-----------------|
| | <i>CAD '000</i> | <i>CAD '000</i> |
| Analysed as: | | |
| Current | - | 9,825 |
| Non-current | 13,694 | 3,586 |
| | <u>13,694</u> | <u>13,411</u> |
| Less: loss allowance (notes b and c) | <u>(812)</u> | <u>-</u> |
| | <u>12,882</u> | <u>13,411</u> |

Notes:

- a) As at December 31, 2020 and 2019, the loans provided to the independent third parties were interest-free and were repayable according to the loan agreement. At December 31, 2020 and 2019, the loan receivables have been pledged as security for the borrowing.
- b) During the year ended December 31, 2020, in determining the 12-month ECL for the loan receivables, the directors of the Company have taken into account the historical default experience, the financial position of the counterparties, value of collaterals as well as the future prospects of the industries in which the debtors operate, various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets individually occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during both years.

- c) The following is an aged analysis of net loan receivables, presented based on the dates which loans are granted to borrowers.

| | <u>2020</u> | <u>2019</u> |
|----------------|-----------------|-----------------|
| | <i>CAD '000</i> | <i>CAD '000</i> |
| Within 90 days | - | - |
| 90-365 days | - | 9,825 |
| Over 1 year | 12,882 | 3,586 |
| | <u>12,882</u> | <u>13,411</u> |
| At December 31 | 12,882 | 13,411 |

- (a) The following is an aged analysis of net loan receivables, presented based on the dates which loans are granted to borrowers.

| | Expected loss rate | Gross carrying amount | Loss allowance |
|----------------------|---------------------------|------------------------------|-----------------------|
| As at | % | <i>CAD '000</i> | <i>CAD '000</i> |
| At December 31, 2020 | | | |
| Performing | 5.93% | 13,694 | 812 |

December 31, 2019, the directors of the Company estimate the ECL on loan receivables was insignificant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

- (b) The movement in the loss allowance for loan receivables is set out below:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| At 1 January | - | - |
| Loss allowance recognised in profit or loss during the year | <u>812</u> | <u>-</u> |
| At 31 December | <u><u>812</u></u> | <u><u>-</u></u> |

11. CASH AND CASH EQUIVALENTS

Bank balances and cash

Bank balances carry interest at market rates which range from 0% to 0.5% (2019: 0% to 1.8%) per annum.

12. EXPLORATION AND EVALUATION ASSETS

| | <u><i>CAD'000</i></u> |
|--|-----------------------|
| | <i>(restated)</i> |
| Balance at January 1, 2019 | 269,218 |
| Capital expenditures | 979 |
| Non-cash expenditures (note a) | (183) |
| Impairment | <u>(16,870)</u> |
| Balance at December 31, 2019 (restated) | <u>253,144</u> |
| Balance at January 1, 2020, as originally stated (audited) | 270,014 |
| Prior year adjustment | <u>(16,870)</u> |
| Balance at January 1, 2020, as (restated) | 253,144 |
| Capital expenditures | 1,077 |
| Non-cash expenditures (note a) | <u>1,974</u> |
| Balance at December 31, 2020 | <u><u>256,195</u></u> |

Note:

- (a) Non-cash expenditures include capitalised share-based compensation and changes in decommissioning obligations.

At the end of the reporting period, the Group assessed impairment for its E&E assets. For the purpose of impairment assessment, 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 with reference to cash flow forecast provided by management of Company. Key assumptions for the FVLCD calculations relate to the estimation of cash flows which include forecasted crude oil prices, sales and gross margin, such estimation is based on the past performance of each cash generating units and management's expectations. The post-tax discount rate in measuring the FVLCD was 10% in relation to E&E assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

For the year ended December 31, 2019, the Group assessed E&E assets for any indicators of impairment due to industry pricing fundamentals. Impairment assessment is performed on the basis of declines in crude oil prices which is considered as an impairment indicator for the year ended December 31, 2019. Accordingly, the Group has recognised an impairment loss of CAD16,870,000 in profit or loss for the year ended December 31, 2019.

For the year ended December 31, 2020, the Group assessed E&E assets for any indicators of impairment due to industry pricing fundamentals. Based on recent crude oil prices forecast, there were no impairment recognised for the year ended December 31, 2020.

13. PROPERTY, PLANT AND EQUIPMENT

| | Crude oil assets | Corporate assets | Total |
|---|------------------|------------------|---------|
| | CAD'000 | CAD'000 | CAD'000 |
| Cost | | | |
| Balance at January 1, 2019 | 893,729 | 5,405 | 899,134 |
| Additions | 1,579 | 82 | 1,661 |
| Non-cash expenditures (note a) | (793) | - | (793) |
| Balance at December 31, 2019 and January 1, 2020 | 894,515 | 5,487 | 900,002 |
| Additions | - | 397 | 397 |
| Disposal and written-off | (4,850) | - | (4,850) |
| Non-cash expenditures (note a) | 9,762 | - | 9,762 |
| Exchange alignment | - | (2) | (2) |
| Balance at December 31, 2020 | 899,427 | 5,882 | 905,309 |
| Accumulated depletion, depreciation and impairment | | | |
| Balance at January 1, 2019 | 402,317 | 4,002 | 406,319 |
| Depletion and depreciation charge for the year | 14,203 | 425 | 14,628 |
| Balance at December 31, 2019 and January 1, 2020 | 416,520 | 4,427 | 420,947 |
| Depletion and depreciation charge for the year | 2,120 | 481 | 2,601 |
| Elimination on disposal and written-off | (62) | - | (62) |
| Exchange alignment | - | (2) | (2) |
| Balance at December 31, 2020 | 418,578 | 4,906 | 423,484 |
| Carrying values | | | |
| At December 31, 2020 | 480,849 | 976 | 481,825 |
| At December 31, 2019 | 477,995 | 1,060 | 479,055 |

Note:

- (a) Non-cash expenditures include capitalised share-based compensation and changes in decommissioning obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Group's oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants ("GLJ"). As at December 31, 2020, the projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ's evaluation of the Group's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at December 31, 2020 was 10% (2019: 10%) based on the specific risk to the assets.

For the year ended December 31, 2020 and 2019, the Group did not recognise an impairment loss based on its assessment that the estimated recoverable amount exceeded the carrying value.

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(a) Right-of-use assets

| | Trucks and Trailers | Offices | Total |
|---|--------------------------------|-----------------|-----------------|
| | <i>CAD '000</i> | <i>CAD '000</i> | <i>CAD '000</i> |
| Balance at January 1, 2019 | 861 | 1,643 | 2,504 |
| Additions | - | 659 | 659 |
| Depreciation | (213) | (866) | (1,079) |
| Balance at December 31, 2019 and January 1, 2020 | 648 | 1,436 | 2,084 |
| Termination of lease | (591) | - | (591) |
| Additions | - | 1,198 | 1,198 |
| Depreciation | (57) | (896) | (953) |
| Exchange alignment | - | (16) | (16) |
| Balance at December 31, 2020 | - | 1,722 | 1,722 |

The Group has lease arrangements for office premise (2019: trucks and trailers and office premises) with the lease terms of generally ranged from 2 to 3 years (2019: ranged from 3 to 6 years).

Additions to the right-of-use assets for the year ended December 31, 2020 amounted to approximately CAD1,198,000 (2019: CAD659,000) due to new leases of office premise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

(b) Lease liabilities

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|--------------------------------------|
| | <i>CAD '000</i> | <i>CAD '000</i> <i>(restated)</i> |
| Current | 993 | 1,066 |
| Non-current | 801 | 1,157 |
| | <u>1,794</u> | <u>2,223</u> |
| | <u>2020</u> | <u>2019</u> |
| | <i>CAD '000</i> | <i>CAD '000</i> |
| Amounts payable under lease liabilities | | |
| Within one year | 993 | 1,066 |
| After one year but within two years | 566 | 810 |
| After two years but within five years | 235 | 347 |
| | <u>1,794</u> | <u>2,223</u> |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | <u>(993)</u> | <u>(1,066)</u> |
| Amount due for settlement after 12 months | <u>801</u> | <u>1,157</u> |

During the year ended December 31, 2020, the Group entered into a lease agreement in respect of renting office and recognised lease liabilities of CAD1,198,000 (year ended December 31, 2019: CAD659,000).

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, which are 5.4% for the trucks and trailers, and 8.3% for the office premises.

(c) Amount recognised in profit or loss

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|-----------------|-----------------|
| | <i>CAD '000</i> | <i>CAD '000</i> |
| Depreciation of right-of-use assets | 953 | 1,079 |
| Interests on lease liabilities | 182 | 261 |
| Expense relating to short-term leases | 78 | 273 |

(d) Others

During the year ended December 31, 2020, the total cash outflow for lease amount to approximately CAD963,000 (2019: CAD1,225,000).

At December 31, 2020 and 2019, no lease agreement which not yet commenced is committed by the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. TRADE AND ACCRUED LIABILITIES

| | <u>2020</u> | <u>2019</u> |
|----------------------------|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Trade payables | 15,493 | 16,994 |
| Interest payables (note a) | 184,972 | 211,116 |
| Other payables | 15,884 | 13,192 |
| Accrued liabilities | <u>7,362</u> | <u>6,301</u> |
| | <u>223,711</u> | <u>247,603</u> |

Note:

- (a) The interest payables as at December 31, 2020 is including the interest payable relating to senior notes of approximately CAD182,422,000 (2019: CAD209,772,000), loan from related companies of approximately CAD981,000 (2019: CAD649,000), convertible bond of nil (2019: CAD653,000) and other loans of approximately CAD1,569,000 (2019: CAD42,000) respectively.

The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

| | <u>2020</u> | <u>2019</u> |
|----------------|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Within 90 days | 554 | 1,459 |
| 91 - 180 days | 180 | - |
| 181 - 365 days | 295 | - |
| Over 365 days | <u>14,464</u> | <u>15,535</u> |
| | <u>15,493</u> | <u>16,994</u> |

The average credit period granted by its suppliers of 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

16. DEBT

(a) Other loans

| | <u>2020</u> | <u>2019</u> |
|-------------|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Current | 1,158 | 12,793 |
| Non-current | <u>13,204</u> | <u>1,668</u> |
| | <u>14,362</u> | <u>14,461</u> |

As at December 31, 2020, the balances are unsecured interest bearing of 0%-20% (2019: 0-20%) per annum, and of which approximately CAD1,158,000 (2019: CAD12,793,000) have a maturity date by December 31, 2020 and approximately CAD13,204,000 (2019: CAD1,668,000) have a maturity date of June 1, 2022, August 11, 2022, October 18, 2022 and June 7, 2023 respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Included in the above balance is approximately CAD13,204,000 (2019: CAD13,411,000) for which the Group and an independent Hong Kong-based investment holding company entered into loan agreements and under which the Group provided Renminbi (“CNY”) loan and received Hong Kong dollar (“HK\$”) loan from the investment holding company. The Group has to repay HK\$ to receive CNY from the investment holding company.

(a) Senior notes

| | <u>2020</u> | <u>2019</u> |
|-------------------------|----------------|-----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Balance at January 1, | 257,999 | 270,990 |
| Exchange realignment | <u>(5,088)</u> | <u>(12,991)</u> |
| Balance at December 31, | <u>252,911</u> | <u>257,999</u> |

On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the “Notes”) at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and 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 US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes 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”). On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement (“FRA”) and a Note Exchange Agreement (the “NEA”) with the Forbearing Holders. The Forbearing Holders agreed to waive the liability of the Company in relation to previous violations of terms listed on the Agreement and fully reinstate the Agreement, provided that the Company made the following payments on or before March 27, 2017:

- Payment of US\$2.8 million representing 20% of the yield maintenance premium originally due on August 1, 2016;
- Payment of US\$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 US\$5.2 million was paid;
- the Company agreed to repurchase and the Forbearing Holders agreed to sell up to US\$11.2 million of Senior Notes in exchange for common shares of the Company, pending on conditions.

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 yield maintenance premium to be repaid on August 1, 2017 in cash;
 - 80% of the accrued interest and forbearance fee of US\$9.6 million to be repaid on August 1, 2017 in cash;
- Make principal repayments to the Forbearing Holders of US\$5.0 million on April 30, 2017, US\$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 US\$0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of US\$1.8 million by October 30, 2017;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

- Repayment of US\$5.0 million and US\$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 was to obtain financing of US\$5.0 million within 45 days after signing the Amended FA;
- The Company was to obtain financing of US\$5.0 million every quarter.

Some of the Company's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfill the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended FA. Furthermore, Sunshine did not fulfill repayment requirements of US\$1.8 million on October 30, 2017, US\$5.0 million on February 1, 2018 and US\$15.0 million on May 1, 2018.

On August 1, 2018, the Company was required, amongst other matters, to repay notes principal, and any previous outstanding payment commitments. The Company did not fulfill the repayment requirements. On October 31, 2018 (Calgary time), the Company and the noteholders signed a Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The Forbearance was extended to August 1, 2019 (New York time);
- An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
- The Company is to obtain financing of at least US\$5.0 million by April 30, 2019 to maintain sufficient liquidity.

On April 24, 2020, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The FRAA covers the period from December 31, 2019 to August 31, 2021 ("Period of Forbearance");
- Same as the Forbearance Reinstatement and Amending Agreement executed on November 1, 2018, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2021, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

The directors of the Company believe the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to a reasonable market level.

After the reporting date, the Independent note holders ("Transferee Holders") entered into note assignment and transfer agreements with the ultimate controlling party, Mr. Sun (the "Note transferee"), and agreed to assign the initial nominal principal amount of notes from the transferee Holders of approximately US\$188,658,000 (equivalent to approximately CAD240,200,000) to the Note transferee.

17. CONVERTIBLE BONDS

2019 CB

On June 17, 2019, the Company issued a 10% convertible bond ("2019 CB") with a principal amount of US\$10,450,000 (equivalent to approximately CAD13,572,000 at the issuance date) to an independent third party, carrying conversion right to convert into 19,979,685 Class "A" common shares at the conversion price of HK\$4.09 per share (after share consolidation held on February 26, 2020) and maturing on June 16, 2021 which is two years from the date of issue of the 2019 CB. All the subscription proceeds were subsequently received on July 29, 2019. There was no conversion made during the year ended December 31, 2019.

As at the reporting date, the Company has settled the principal amount and accrued interest of 2019 CB in full.

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2020 CB

On April 1, 2020, the Company and Prime Union Enterprises Limited (“Prime Union”), a company wholly-owned by Mr. Sun, entered into a Subscription Agreement (“Subscription Agreement”) for a convertible bond (“2020 CB”) with a principal amount of HK\$72,000,000 (equivalent to approximately CAD12,660,000 at the issuance date). The 2020 CB will mature on March 31, 2022. The coupon interest of 2020 CB is 8% per annum and payable at maturity. The 2020 CB is convertible into 113,924,051 conversion shares at any time between the date of issue of the convertible bonds and the maturity date at the bondholder’s option at initial conversion price of HK\$0.632 per conversion share. The Subscription Agreement has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds will be used for financing general working capital and repayment of debts.

The movement of liability component of the 2020 CB is as follows:

| | 2020 CB |
|--|---------------------|
| | <u>CAD ‘000</u> |
| Liability component at January 1, 2020 | - |
| Liability component on initial recognition | 8,194 |
| Effective interest expenses | 1,654 |
| Exchange realignment | <u>(542)</u> |
| Liability component at December 31, 2020 | <u><u>9,306</u></u> |

The liability component of the 2020 CB is classified under non-current liabilities.

The 2020 CB issued during the year ended December 31, 2020 recognised in the consolidated statement of financial position are as follows:

| | 2020 CB |
|--|---------------------|
| | <u>CAD ‘000</u> |
| Fair value of convertible bond issued | 12,660 |
| Equity conversion component recognised under convertible bonds reserve | <u>(4,466)</u> |
| Liability component on initial recognition at issue date | <u><u>8,194</u></u> |

The fair value of the 2020 CB were valued by an independent professional valuer, as at their respective issue dates and were calculated by using the Binomial Model. The inputs into the model were as follows:

| | 2020 CB |
|--|-------------------|
| | <u>CAD ‘000</u> |
| Share price | HK\$2.62 |
| Conversion price | HK\$0.632 |
| Effective interest rate | 37.38% |
| Expected volatility | 0.60 |
| Expected life since the completion of the subscription | 1.79 years |
| Risk free rate | 0.35% |
| Expected dividend yield | <u><u>Nil</u></u> |

The effective interest rate was determined with reference to the average of the bond yields of the comparable companies with similar businesses and credit rating of the Company. Risk free rate was determined with reference to yield of 3 years Hong Kong government bonds near the valuation dates of June 15, 2020. Expected volatility was determined using the historical volatility of the Company’s share price over the previous 3 years as at the valuation dates of June 15, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The 2020 CB comprise a liability component and equity conversion component. The residual amount, representing the value of the equity component, is included in the convertible bonds reserve under equity attributable to the owners of the Company.

18. LOAN FROM RELATED COMPANIES

| <u>Related companies</u> | <u>2020</u> | <u>2019</u> |
|--|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Prime Union Enterprises Limited (note b) | 15,837 | 10,073 |
| Jiangxi Nobao Electrical Company Limited* 江西挪寶電器有限公司 (note b) | 10,194 | - |
| Others (note b) | 6,977 | 6,932 |
| | <u>33,008</u> | <u>17,005</u> |
| Analysed as: | | |
| Current | 32,745 | 12,622 |
| Non-current | 263 | 4,383 |
| | <u>33,008</u> | <u>17,005</u> |

Notes:

- (a) As at December 31, 2020 and 2019, the Company had loans from related companies which are unsecured, interest bearing at 10% per annum, and of which approximately CAD32,745,000 are due within one year and CAD263,000 is repayable in 2 years (2019: CAD12,622,000 can be rollover for a period of 3 to 6 months and approximately CAD4,383,000 is repayable in 2 years).
- (b) The director of the Company, Mr. Sun is also the common director of related companies.

* For identification purpose only

19. PROVISIONS

| | <u>2020</u> | <u>2019</u> |
|---|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| <u>Decommissioning obligations, non-current</u> | | |
| Balance, beginning of year | 48,910 | 48,739 |
| Effect of changes in discount rate | 11,736 | (975) |
| Unwinding of discount rate | 502 | 1,146 |
| | <u>61,148</u> | <u>48,910</u> |

As at December 31, 2020, the Group's estimated total undiscounted cash flows required to settle asset decommissioning obligations was approximately CAD73,900,000 (2019: CAD75,500,000). Expenditures to settle asset decommissioning obligations were estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil products properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate from 0.22% to 1.33% (2019: 1.4% to 2.34%) per annum and inflated using an inflation rate of 2.0% (2019: 2%) per annum.

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20. SHARE CAPITAL

The Company's authorised 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.

| | <u>Number of shares</u> | <u>Amount</u> |
|---|-------------------------|-----------------|
| | | <i>CAD '000</i> |
| <u>Issued and fully paid</u> | | |
| At January 1, 2019 | 6,135,846,624 | 1,293,379 |
| Issue of new shares under Director Share Arrangement (note b) | 21,779,902 | 344 |
| Issue of new shares under private placement (note c) | 247,954,980 | 2,812 |
| Share issue costs, net of deferred tax (nil) | - | (12) |
| | <hr/> | <hr/> |
| At December 31, 2019 and January 1, 2020 | 6,405,581,506 | 1,296,523 |
| Issue of new shares under private placement (note d) | 1,443,000 | 324 |
| Share consolidation (note e) | (6,277,469,876) | - |
| Share issue costs, net of deferred tax (nil) | - | (33) |
| | <hr/> | <hr/> |
| At December 31, 2020 | 129,554,630 | 1,296,814 |

20. SHARE CAPITAL

Notes:

- (a) 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.
- (b) Director Share Arrangement during the year ended December 31, 2019

On May 15, 2019, the Board approved the payment of the fees of certain directors (the "Connected Directors") for the period from October 1, 2017 to April 30, 2019 in shares in lieu of cash, subject to independent shareholders' approval requirement under Chapter 14A of the Listing Rules. On June 24, 2019, the proposed issuance of 21,779,902 new shares to the Connected Directors as payment of directors' fees was approved by the independent shareholders at the Special General Meeting. The completion took place on July 11, 2019. An aggregate of 21,779,902 new shares were allotted and issued to the Connected Directors at an issue price of HK\$0.092 (equivalent to approximately CAD0.015) per share.

- (c) Private placement during the year ended December 31, 2019

On August 9, 2019 the Company entered into a settlement agreement for a total of 57,690,480 Class "A" common shares at a price of HK\$0.077 per share for gross proceeds of approximately HK\$4,442,000 (equivalent to approximately CAD752,000). On August 16, 2019 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of debt with an independent third party.

On August 16, 2019, the Company entered into a settlement agreement for a total of 100,900,000 Class "A" common shares at a price of HK\$0.070 per share for gross proceeds of approximately HK\$7,063,000 (equivalent to approximately CAD1,200,000). On August 22, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payable with an independent third party.

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On October 11, 2019, the Company entered into a settlement agreement for a total of 37,728,000 Class “A” common shares at a price of HK\$0.063 per share for gross proceeds of approximately HK\$2,377,000 (equivalent to approximately CAD403,000). On October 17, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payable with an independent third party.

On December 5, 2019, the Company entered into a settlement agreement for a total of 51,636,500 Class “A” common shares at a price of HK\$0.0524 per share for gross proceeds of approximately HK\$2,706,000 (equivalent to approximately CAD457,000). On December 16, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payable with an independent third party.

(d) Private placement during the year ended December 31, 2020

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class “A” common shares at a price of HK\$1.31 per share (post-consolidation) for gross proceeds of approximately HK\$1,896,000 (equivalent to approximately CAD324,000). On March 10, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

Notes:

(e) Share consolidation

The Company has implemented the share consolidation of every fifty issued Class “A” common shares in the share capital of the Company into one consolidated Class “A” common shares on February 26, 2020.

(f) Conversion of 2020 CB

On February 3, 2021, the Company announced that Prime Union proposed for converting all the convertible bonds of 2020 CB into a total of 113,924,051 new Class “A” common shares at the conversion price of HK\$0.632 per share (“Proposed Conversion”). The proposed conversion was passed by the ordinary resolution at the extraordinary general meeting of the Company held on March 5, 2021. The new shares rank pari passu with the existing shares in all respects.

21. REVENUE

Revenue represents revenue arising on sales of crude oil products. An analysis of the Group’s revenue for the year is as follows:

| | <u>2020</u> | <u>2019</u> |
|---|----------------|----------------|
| | <i>CAD’000</i> | <i>CAD’000</i> |
| Revenue from contracts with customers within the scope of IFRS 15 | | |
| - Crude oil products sales | 4,184 | 42,334 |
| - Royalties | <u>(5)</u> | <u>(618)</u> |
| | <u>4,179</u> | <u>41,716</u> |

All revenue from contracts with customers is derived from Canada and recognised at a point in time.

Revenue from the sale of crude oil products is recognised when consideration is due when title has transferred and is generally collected in the month following the month of delivery. Revenues associated with the sale of crude oil products are recognised at a point in time when control of goods have transferred, which is generally when title passes from the Group to the customer. Revenues are recorded net of crown royalties. Crown royalties are recognised at the time of production. The royalty rate at West Ells is based on price sensitive royalty rates set

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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 crude oil products sales and increases for every dollar that the WTI crude oil products price in Canadian dollars is priced above CAD55 per barrel, to a maximum of 9% when the WTI crude oil products price is CAD120 per barrel or higher. The West Ells project is currently in pre-payout.

Revenue is allocated to each performance obligation on the basis of its standalone selling price and measured at the transaction price, which is the fair value of the consideration and represents amounts receivable for goods or services provided in the normal course of business. The price is allocated to each unit in the series as each unit is substantially the same and depicts the same pattern of transfer to the customer.

22. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker (the “CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of goods provided. No operating segments identified by the CODM has been aggregated in arriving at the reportable segments of the Group.

For management purpose, the Group operates in one business unit based on their products, and has one reportable and operating segment: mining, production and sales of crude oil products. The directors of the Company monitor the revenue of its business unit as a whole based on the monthly sales and delivery reports for the purpose of making decisions about resource allocation and performance assessment.

Information about geographical area

As all of the Group’s revenue is derived from the customers based in the Canada (country of domicile) and majority of the Group’s non-current assets are located in Canada, no geographical information is presented.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

| | <u>2020</u> | <u>2019</u> |
|------------|----------------|----------------|
| | <i>CAD’000</i> | <i>CAD’000</i> |
| Customer A | 4,179 | 41,716 |

23. OTHER INCOME

| | <u>2020</u> | <u>2019</u> |
|--|----------------|----------------|
| | <i>CAD’000</i> | <i>CAD’000</i> |
| Income from waived of interest expense on senior notes, including yield maintenance premium (note) | 42,992 | - |
| Foreign exchange gain, net | 6,476 | 13,734 |
| Income from over-provision of trade payable | 326 | 223 |
| Others | 320 | 61 |
| Gain on derecognition of right-of-use asset and lease liabilities | 82 | - |
| Interest income | 5 | 8 |
| Gain on share issuance from private placement | - | 238 |
| | <u>50,201</u> | <u>14,264</u> |

Note: On February 5, 2021, the Company and the Forbearing Holders entered into an interest waiver agreement (the “Interest Waiver Agreement”) pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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annum on the outstanding amounts (principal and interests) under the Forbearance Reinstatement and Amending Agreement (“FRAA”) dated April 24, 2020 (the “Waiver of Interest”) which amounted to CAD42,992,000 (equivalent to US\$31.5 million). Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

24. FINANCE COSTS

| | <u>2020</u> | <u>2019</u> |
|---|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Interest on: | | |
| - Senior notes, including yield maintenance premium | 20,084 | 61,200 |
| - Other loans | 1,385 | 1,832 |
| - Leases liabilities | 182 | 261 |
| - Convertible bonds | 1,654 | 1,207 |
| Other interest expense | 1,143 | 1,259 |
| Unwinding of discounts on provisions | 502 | 1,146 |
| | <u>24,950</u> | <u>66,905</u> |

25. PROFIT (LOSS) FOR THE YEAR

| | <u>2020</u> | <u>2019</u> |
|---|----------------|-------------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| | | <i>(restated)</i> |
| Profit (loss) for the year has been arrived at after charging : | | |
| Directors' and chief executive's emoluments | 3,157 | 4,112 |
| Salaries, wages, allowances and other benefits | 2,266 | 3,284 |
| Contributions to retirement benefits scheme (excluding directors', chief executive's and supervisors' emoluments) | 128 | 172 |
| Total staff costs (note 27) | <u>5,551</u> | <u>7,568</u> |
| Auditor's remuneration | 247 | 213 |
| Depletion and depreciation of property, plant and equipment | 2,557 | 14,628 |
| Depreciation of right-of-use assets | 953 | 1,079 |
| Impairment loss on trade and other receivables | 176 | - |
| Impairment loss on loan receivables | 812 | - |
| Impairment on exploration and evaluation assets | - | 16,870 |
| Loss on disposal and written-off of property, plant and equipment | <u>1,026</u> | <u>-</u> |

26. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted profit (loss) per share attributable to the owners of the Company is based on the following data:

| | <u>2020</u> | <u>2019</u> |
|---|----------------|-------------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| | | <i>(restated)</i> |
| <u>Earnings (loss)</u> | | |
| Profit (loss) for the purpose of basic earnings (loss) per share for the year attributable to owners of the Company | 2,228 | (97,512) |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible bonds | - | - |
| Earnings (loss) for the purpose of diluted earnings (loss) per share | <u>2,228</u> | <u>(97,512)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

| | <u>2020</u> | <u>2019</u> |
|---|--------------------|----------------------|
| <u>Number of shares</u> | | <i>(restated)</i> |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | 129,298,630 | 6,214,865,925 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible bonds | - | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | <u>129,298,630</u> | <u>6,214,865,925</u> |

The weighted average number of ordinary shares for the purpose of basic earnings (loss) per share has been adjusted for the consolidation of shares on February 26, 2020.

For the years ended December 31, 2020 and 2019, the computation of neither basic nor diluted earnings (loss) per share has assumed the conversion of the Company's outstanding convertible bonds since the exercise would result in an increase in earnings per share and a decrease in loss per share respectively.

27. DIRECTORS' EMOLUMENTS AND OTHER STAFF COSTS

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

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|-----------------|
| | <i>CAD '000</i> | <i>CAD '000</i> |
| <u>Directors' emoluments (note a)</u> | | |
| Director's fees | 393 | 482 |
| Salaries and allowances | 2,251 | 2,251 |
| Contribution to retirement benefits scheme | 6 | 6 |
| Share-based compensation | 507 | 1,373 |
| | <u>3,157</u> | <u>4,112</u> |
| <u>Other staff costs</u> | | |
| Salaries and other benefits | 2,266 | 3,284 |
| Contribution to retirement benefits scheme | 128 | 172 |
| Share-based compensation | - | - |
| | <u>2,394</u> | <u>3,456</u> |
| Total staff costs, including directors' emoluments | <u>5,551</u> | <u>7,568</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

(a) Directors' emoluments

Details of the directors' emoluments are as follows:

For the year ended December 31, 2020

| Name of Director | Director's Fees | Salaries and allowances | Contribution to retirement benefits scheme | Share-based payments | Total |
|---|-----------------|-------------------------|--|----------------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> | <i>CAD'000</i> | <i>CAD'000</i> | <i>CAD'000</i> |
| <i>Executive directors</i> | | | | | |
| Mr. Sun | 53 | 859 | 3 | 470 | 1,385 |
| Gloria Ho | 46 | 583 | 3 | 23 | 655 |
| <i>Non-Executive Directors:</i> | | | | | |
| Michael Hibberd | 50 | 809 | - | - | 859 |
| Xijuan Jiang | 46 | - | - | - | 46 |
| Linna Liu | 38 | - | - | - | 38 |
| <i>Independent Non-Executive Directors:</i> | | | | | |
| Yi He | 59 | - | - | 7 | 66 |
| Guangzhong Xing ⁴ | 51 | - | - | 7 | 58 |
| Alfa Li ⁵ | 50 | - | - | - | 50 |
| | 393 | 2,251 | 6 | 507 | 3,157 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

For the year ended December 31, 2019

| Name of Director | Director's | Salaries and | Contribution | Share- | Total |
|---|------------|--------------|---------------|----------|---------|
| | Fees | allowances | to retirement | based | |
| | CAD'000 | CAD'000 | scheme | payments | CAD'000 |
| | | | CAD'000 | CAD'000 | CAD'000 |
| <i>Executive directors</i> | | | | | |
| Mr. Sun | 70 | 859 | 3 | 1,277 | 2,209 |
| Gloria Ho | 50 | 583 | 3 | 64 | 700 |
| <i>Non-Executive Directors:</i> | | | | | |
| Michael Hibberd | 63 | 809 | - | - | 872 |
| Xijuan Jiang | 51 | - | - | - | 51 |
| Linna Liu | 39 | - | - | - | 39 |
| Hong Luo ¹ | 23 | - | - | - | 23 |
| <i>Independent Non-Executive Directors:</i> | | | | | |
| Raymond Fong ² | 31 | - | - | - | 31 |
| Yi He | 59 | - | - | 16 | 75 |
| Joanne Yan ³ | 34 | - | - | - | 34 |
| Guangzhong Xing ⁴ | 26 | - | - | 16 | 42 |
| Alfa Li ⁵ | 24 | - | - | - | 24 |
| Jeff Jingfeng Liu ⁶ | 12 | - | - | - | 12 |
| | 482 | 2,251 | 6 | 1,373 | 4,112 |

Notes:

- (1) Resigned on June 3, 2019
- (2) Passed away on June 23, 2019
- (3) Resigned on June 24, 2019
- (4) Appointed on June 25, 2019
- (5) Appointed July 29, 2019
- (6) Resigned on March 7, 2019

Mr. Sun is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

No directors and chief executive of the Company waived or agreed to waive the emolument paid by the Group during the years ended December 31, 2020 and 2019.

No emoluments were paid by the Group to the directors as an inducement for joining the Group or as compensation for loss of office during the years end December 31, 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

(a) Five highest paid individuals

The five highest paid individuals include three (2019: two) directors of the Company for the year ended December 31, 2020. The emoluments of the remaining two (2019: three) non-director individuals are as follows:

| | 2020 | 2019 |
|---|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Salaries and other emoluments | 700 | 917 |
| Contribution to retirement benefit scheme | 11 | 9 |
| | <u>711</u> | <u>926</u> |

The emoluments fell within the following bands:

| | 2020 | 2019 |
|--|--------------------------|--------------------------|
| | Number of individuals | Number of individuals |
| HK\$nil to HK\$1,000,000 (equivalent to approximately CAD172,000) | - | - |
| HK\$1,000,001 (equivalent to approximately CAD172,000) to HK\$1,500,000 (equivalent to approximately CAD259,000) | - | - |
| HK\$1,500,001 (equivalent to approximately CAD259,000) to HK\$2,000,000 (equivalent to approximately CAD345,000) | 1 | 1 |
| HK\$2,000,001 (equivalent to approximately CAD345,000) to HK\$2,500,000 (equivalent to approximately CAD432,000) | 1 | 1 |
| HK\$2,500,001 (equivalent to approximately CAD432,000) to HK\$3,500,000 (equivalent to approximately CAD604,000) | - | - |
| HKD3,500,001 (equivalent to approximately CAD604,000) to HK\$4,000,000 (equivalent to approximately CAD691,000) | <u>-</u> | <u>1</u> |

28. RETIREMENT BENEFIT SCHEME

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 (equivalent to CAD250) per month, to the MPF Scheme, in which the contribution is matched by employees.

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

The Group operates the CPP Scheme for all qualifying employees in Canada. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5.25% of relevant payroll costs, capped at CAD292 per annually, to the CPP Scheme, in which the contribution is matched by employees.

During the year ended December 31, 2020, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately CAD134,000 (2019:CAD178,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. SHARE-BASED COMPENSATION

(a) 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 TSE 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 shares on TSE or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the shares on the TSE or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date.

(b) Fair value of share options granted in the year

There was no share options granted for the year ended December 31, 2020. The weighted average fair value of the share options granted for the year ended December 31, 2020 was CAD0.6 (2019: CAD0.012). Options valued 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 2019. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 15.39%.

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:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|---------------|-------------|
| Input variables | | |
| Grant date share price (\$) | 0.6 - 2.00 | 0.012 |
| Exercise price (\$) | 0.6 - 2.00 | 0.012 |
| Expected volatility (%) | 61.88 - 63.91 | 63.91 |
| Option life (years) | 1.32 - 2.50 | 2.84 |
| Risk-free interest rate (%) | 1.48 - 1.95 | 1.48 |
| Expected forfeitures (%) | 15.39 | 15.39 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

(c) Movements in stock options

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

| | 2020 | | 2019 | |
|----------------------------|-------------------|--------------------------------------|--|---|
| | Number of options | Weighted average exercise prices CAD | Number of options <i>(restated)</i> | Weighted average exercise prices CAD <i>(restated)</i> |
| Balance, beginning of year | 9,165,687 | 2.67 | 9,820,117 | 2.97 |
| Granted | - | - | 200,000 | 0.60 |
| Forfeited | (109,686) | 2.84 | (718,363) | 5.16 |
| Expired | - | - | (136,067) | 6.04 |
| Balance, end of year | 9,056,001 | 2.70 | 9,165,687 | 2.67 |
| Exercisable, end of year | 8,989,336 | 2.71 | 6,872,355 | 2.93 |

As at December 31, 2020, stock options outstanding had a weighted average remaining contractual life of 2.68 years (2019: 2.9 years).

(d) Share-based compensation

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

| | 2020 | | | 2019 | | |
|---------------|----------------------------|-------------------------------|-------------------------|----------------------------|-------------------------------|-------------------------|
| | Expensed <i>CAD'000</i> | Capitalised <i>CAD'000</i> | Total <i>CAD'000</i> | Expensed <i>CAD'000</i> | Capitalised <i>CAD'000</i> | Total <i>CAD'000</i> |
| Stock options | 507 | - | 507 | 1,373 | - | 1,373 |

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30. INCOME TAX EXPENSES

(a) Current income tax

No provision for income tax was made for the years ended December 31, 2020 and 2019 as the Group had no assessable profits for both years.

Reconciliation between income tax expense and accounting loss at combined federal and provincial income tax rate:

| | 2020 <i>CAD'000</i> | 2019 <i>CAD'000</i> <i>(restated)</i> |
|---|-------------------------------|--|
| Profit (loss) before income tax | 2,228 | (97,512) |
| Tax at the tax rate of 27% | 602 | (26,328) |
| Tax effect of expenses not deductible for tax purposes | 794 | 558 |
| Tax effect of income not taxable for tax purposes | (11,697) | (65) |
| Tax effect of utilisation of deductible temporary differences previously not recognised | 1,093 | 8,814 |
| Tax effect of tax losses not recognised | 9,058 | 16,760 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 150 | 261 |
| Income tax | - | - |

(b) Deferred income tax

At the end of the reporting period, the Group has not recognised deferred income tax due to the unpredictability of future profit streams of the respective group entities. The components of the net deferred income tax asset not recognised are as follows:

| | 2020 <i>CAD'000</i> | 2019 <i>CAD'000</i> <i>(restated)</i> |
|---|-------------------------------|--|
| <u>Deferred tax assets (liabilities)</u> | | |
| E&E assets and property, plant and equipment | (92,861) | (92,171) |
| Decommissioning liabilities | 13,605 | 13,469 |
| Share issue costs | 85 | 377 |
| Tax losses | 326,504 | 335,562 |
| | <u>247,333</u> | <u>257,237</u> |

Unrecognised tax losses will expire in 20 years from the year of origination.

31. DIVIDENDS

The Directors did not recommend or declare the payment of any dividend in respect of the years ended December 31, 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, during the year, the Group entered into the following material related party transactions.

(a) Trading transactions

For the year ended December 31, 2020, a consulting company, to which a director of the Company is related, charged the Group CAD0.5 million (2019: CAD0.5 million) for management and advisory services.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds will be used for financing general working capital and repayment of debts.

On March 25, 2019, the Group signed a supplementary agreement with a company owned by Mr. Kwok Ping Sun, the Company's Executive Chairman, regarding the proposed amendment of the Joint Operating Agreements on Muskwa and Godin area oil sands leases.

(b) Compensation of key management personnel

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

| | <u>2020</u> | <u>2019</u> |
|---|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Directors' fees | 393 | 482 |
| Salaries and allowances | 2,962 | 3,163 |
| Contribution to retirement benefit scheme | 12 | 11 |
| Share-based compensation | 507 | 1,373 |
| | <u>3,874</u> | <u>5,029</u> |

33. COMMITMENTS AND CONTINGENCIES

(a) Commitments

| | <u>2020</u> | <u>2019</u> |
|--|----------------|----------------|
| | <i>CAD'000</i> | <i>CAD'000</i> |
| Capital expenditure in respect of the acquisition of drilling machinery contracted for but not provided in the consolidated financial statements | 380 | 1,481 |
| Rental commitment in relation to exploration and evaluation assets (note) | <u>3,482</u> | <u>4,881</u> |

Note: The Group has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

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For the year ended 31 December 2020

(b) Litigations

The Group 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 CAD40 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. As at December 31, 2020, no amounts have been accrued in the Condensed Consolidated Interim Financial Statements as the ultimate resolution is undeterminable at this time. The Group will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

The Group received a demand notice from the Regional Municipality of Wood Buffalo (“RMWB”) in relation to the 2016-2020 municipal property taxes of CAD10.96 million. The Group was also charged with overdue penalties of CAD5.26 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Group has sought judicial review to determine the effect of non-compliant tax notices on RMWB’s property tax claim.

The Group is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Group’s consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognised if the Group determines that the loss is probable and the amount can be reasonably estimated. The Group believes it has made adequate provision for such claims. While fully supportable in the Group’s view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Group receives liens or claims on accounts payable balances, and the Group continues to work toward resolution of any liens or claims. At December 31, 2020, the Group had incurred CAD4.46 million in liens against them during the ordinary course of business.

On or around February 27, 2019, Group was required to pay CAD700,000 into the Alberta Court of Queen’s Bench, and which amount was subsequently released from Court on or about October 15, 2019 in satisfaction of the creditor’s judgment. The judgment is under appeal by the Group. On June 19, 2019, the Group received another notice from the Alberta Court of Queen’s Bench. As a result, CAD540,000 of cash was to be put aside for creditor repayment subsequent to end of June 30, 2020. The court case was then dismissed.

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2020 <u>CAD’000</u> | 2019 <u>CAD’000</u> (restated) |
|-----------------------------------|---------|------------------------|--------------------------------------|
| Asset | | | |
| <i>Current assets</i> | | | |
| Trade and other receivables | (a),(c) | 427 | 12,712 |
| Prepaid expenses and deposits | | 926 | 2,329 |
| Cash and cash equivalents | | 442 | 751 |
| | | <u>1,795</u> | <u>15,792</u> |
| <i>Non-current assets</i> | | | |
| Exploration and evaluation assets | | 256,189 | 253,138 |
| Property, plant and equipment | | 481,708 | 478,644 |
| Right-of-use assets | | 1,331 | 1,078 |
| Other receivables | | 1,999 | 1,889 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

| | | | |
|---|-----|----------------|----------------|
| Loan receivables | | 12,882 | 3,586 |
| Amounts due from subsidiaries | | 11,499 | 12,100 |
| | | <u>765,608</u> | <u>750,435</u> |
| Total Asset | | <u>767,403</u> | <u>766,227</u> |
| Liabilities and Shareholders' Equity | | | |
| <i>Current liabilities</i> | | | |
| Trade and accrued liabilities | | 223,037 | 247,397 |
| Lease liabilities | (c) | 590 | 383 |
| Loans from related companies | (c) | 24,325 | 12,040 |
| Other loans | | 1,158 | 12,793 |
| Senior notes | | 252,911 | 257,999 |
| Amount due to subsidiaries | | 3,456 | 2,643 |
| | | <u>505,477</u> | <u>533,255</u> |
| <i>Non-current liabilities</i> | | | |
| Convertible bonds | | 9,306 | 13,572 |
| Other loans | | 13,204 | 1,668 |
| Lease liabilities | (c) | 766 | 740 |
| Provisions | | 61,148 | 48,910 |
| | | <u>84,424</u> | <u>64,890</u> |
| Total liabilities | | <u>589,901</u> | <u>598,145</u> |
| Shareholders' Equity | | | |
| Share capital | | 1,296,814 | 1,296,523 |
| Convertible bonds equity reserve | (b) | 4,170 | - |
| Reserve for share-based compensation | (b) | 76,411 | 75,904 |
| Accumulated Deficit | (b) | (1,199,893) | (1,204,345) |
| Total shareholders' equity | | <u>177,502</u> | <u>168,082</u> |
| Total Liabilities and Shareholders' Equity | | <u>767,403</u> | <u>766,227</u> |

Notes:

(a) Included in the other receivables as at December 31, 2020, approximately CAD2,144,000 (2019: CAD1,889,000) represented the amount due from Renergy Petroleum (Canada) Co., Ltd., which Mr. Sun and Nobao Energy Holding (China) Company Limited (a company under the control of Mr. Sun) has conditionally acquired Changjiang's interest in. The amount is unsecured, interest-free and repayment on demand.

(b) Reserves movement of the Company is as follows:

| | Convertible bonds equity reserve | Reserve for share-based compensation | Accumulated deficit | Total |
|--|--|--|------------------------|-------------|
| | CAD'000 | CAD'000 | CAD'000 | CAD'000 |
| At January 1, 2019 | - | 74,531 | (1,109,795) | (1,035,264) |
| Loss and total comprehensive loss for the year | - | - | (94,550) | (94,550) |
| Recognition of share-based payments (note 28(d)) | - | 1,373 | - | 1,373 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

| | | | | |
|--|-------|--------|-------------|-------------|
| At December 31, 2019 (restated) | - | 75,904 | (1,204,345) | (1,128,441) |
| At January 1, 2020, as originally stated (audited) | - | 75,904 | (1,187,475) | (1,111,571) |
| Prior year adjustment (note 3) | - | - | (16,870) | (16,870) |
| At January 1, 2020, as restated | - | 75,904 | (1,204,345) | (1,128,441) |
| Profit and total comprehensive income for the year | - | - | 4,452 | 4,452 |
| Issue of convertible bonds (note 16) | 4,170 | - | - | 4,170 |
| Recognition of share-based payments (note 28(d)) | - | 507 | - | 507 |
| At December 31, 2020 | 4,170 | 76,411 | (1,199,893) | (1,119,312) |

Notes:

- (c) Certain comparative figures have been reclassified to confirm the presentation of the current year for the purpose of better representation of the Company's activities:

Other receivables of approximately CAD1,889,000 which had previously been recorded as current assets in the financial statements for the year ended December 31, 2019, was reclassified as non-current assets.

Other receivables of approximately CAD1,918,000 which had previously been recorded as current assets in the financial statements for the year ended December 31, 2019, was reclassified as "Loan receivables" under non-current assets.

Lease liabilities of approximately CAD383,000 which had previously been recorded as non-current liabilities in the financial statements for the year ended December 31, 2019, was reclassified as current liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at December 31, 2020 and 2019 are as follows:

| Name of subsidiaries | Place of incorporation / establishment / operation | Class of shares held | Issued and fully paid ordinary share capital / registered capital | Percentage of equity interest and voting power attributable to the Company | | | | Principal activities |
|--|--|----------------------|---|--|------|----------|------|--|
| | | | | Direct | | Indirect | | |
| | | | | 2020 | 2019 | 2020 | 2019 | |
| Sunshine Oilsands (Hong Kong) Ltd. | Hong Kong | Ordinary | HK\$100 | 100% | 100% | - | - | Provision of corporate management services and act as holding investment |
| Boxian Investments Limited | BVI | Ordinary | US\$1 | 100% | 100% | - | - | Pursuing new investment opportunities |
| Sang Xiang Petroleum & Chemical (Shanghai) Limited * 桑祥石油化工(上海)有限公司 (note(i)) | PRC | Registered capital | RMB 10,000,000 | - | - | 100% | 100% | Pursuing new investment opportunities |
| Sang Xiang (Hebei) Limited (note(i) and (ii)) | PRC | Registered capital | US\$ 200,000,000 | - | - | 51% | 51% | Inactive |

* For identification purpose only

Notes:

- (i) The nature of legal entity established in PRC is limited liability company.
- (ii) On November 9, 2018, the Board approved the formation of a joint venture company (the "JV Company") in China between Sunshine and a company affiliated (the "Affiliate") with the Executive Chairman, Mr. Kwok Ping Sun, where Sunshine and the Affiliate will own 51% and 49% interests in the JV Company respectively.

On February 28, 2019, the Company and the Affiliate entered into a project cooperation agreement (the "Project Cooperation Agreement") with Chengde City People's Government ("Chengde City Government"), Hebei Province, China, pursuant to which the formation of a joint venture project company (the "JV Project Company") by the Corporation and the Affiliate was approved by the Chengde

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

City Government (the “ Transaction”). The Project Cooperation Agreement also approved the establishment of 50 high-end multi-functional petrol stations (the “Multi-functional Petrol Stations”) in Chengde City in the next 3 years. The Multifunctional Petrol Stations will provide integrated services including petrol refueling, gas refueling, electric vehicle charging, smart operator-less car washing, convenience stores, business and casual catering, etc. Sunshine and the Affiliate will own 51% and 49% interests in the JV Project Company respectively.

Per the announcement dated March 4, 2019, both the Company and the Affiliate expected to initially invest up to a total of HK\$19,000,000 into the JV Project Company by contributing to its registered capital. The JV Project Company is established in Chengde City, Hebei Province. The contribution amount will be HK\$9,690,000 by Sunshine and HK\$9,310,000 by the Affiliate, representing their proportionate interests held in the JV Project Company, i.e. 51% and 49% respectively.

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statement of cash flows as cash flows from financing activities.

| | Interest payable | Lease liabilities | Senior notes | Other loans | Convertible bonds | Loans from related companies | Total |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------------|----------|
| | CAD’000 (note 15) | CAD’000 (note 14) | CAD’000 (note 16) | CAD’000 (note 16) | CAD’000 (note 17) | CAD’000 (note 32) | CAD’000 |
| Balance at January 1, 2020 | 211,116 | 2,223 | 257,999 | 14,461 | 13,572 | 17,005 | 516,376 |
| <i>Changes in cash items:</i> | | | | | | | |
| Addition | - | - | - | 104 | - | 17,605 | 17,709 |
| Repayment | (2,412) | (963) | - | (3,678) | - | (1,972) | (9,025) |
| <i>Changes in non-cash items:</i> | | | | | | | |
| Waive of interest on senior note | (42,992) | - | - | - | - | - | (42,992) |
| Accrued interest | 20,084 | 182 | - | 1,385 | 1,654 | 1,144 | 24,449 |
| Increase in other payables | (824) | (142) | - | - | - | - | (966) |
| Derecognition of lease | - | (673) | - | - | - | - | (673) |
| Additional of lease | - | 1,198 | - | - | - | - | 1,198 |
| Repayment of convertible bonds from other loans | - | - | - | 13,677 | (13,677) | - | - |
| Issue of convertible bonds | - | - | - | - | 8,194 | (12,660) | (4,466) |
| Reallocation of accounts | - | - | - | (11,870) | - | 11,870 | - |
| Exchange realignment | - | (31) | (5,088) | 283 | (437) | 16 | (5,257) |
| Balance at December 31, 2020 | 184,972 | 1,794 | 252,911 | 14,362 | 9,306 | 33,008 | 496,353 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

| | Interest payable | Lease liabilities | Senior notes | Other loans | Convertible bonds | Loans from related companies | Total |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------------|----------|
| | CAD'000 (note 15) | CAD'000 (note 14) | CAD'000 (note 16) | CAD'000 (note 16) | CAD'000 (note 17) | CAD'000 (note 32) | CAD'000 |
| Balance at January 1, 2019 | 150,638 | - | 270,990 | 24,462 | - | - | 446,090 |
| <i>Changes in cash items:</i> | | | | | | | |
| Addition | - | - | - | 7,619 | 13,677 | 18,510 | 39,806 |
| Repayment | (1,266) | (1,225) | - | (16,933) | - | (1,243) | (20,667) |
| <i>Changes in non-cash items:</i> | | | | | | | |
| Accrued interest | 61,744 | 261 | - | 1,832 | - | 1,922 | 65,759 |
| Additional of lease | - | 3,163 | - | - | - | - | 3,163 |
| Reallocation of accounts | - | - | - | 13,410 | - | - | 13,410 |
| Exchange realignment | - | 24 | (12,991) | (15,929) | (105) | (2,184) | (31,185) |
| Balance at December 31, 2019 | 211,116 | 2,223 | 257,999 | 14,461 | 13,572 | 17,005 | 516,376 |

37. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2020, the Group entered into the new arrangements in respect of lease of office. Right-of-use assets and lease liabilities of approximately CAD1,198,000 were recognised at the commencement of the lease.

During the year ended December 31, 2020, the Group issued class “A” common shares of 1,443,000 shares (2019: 4,959,000 shares) under general mandate for the settlement of trade payables of approximately CAD324,000 (2019: CAD2,812,000).

During the year ended December 31, 2020, the Group issued convertible bond of HK\$72,000,000 (equivalent to CAD12,660,000), for settlement of loans.

During the year ended December 31, 2020, the Group has redemption of convertible bond of US\$10,450,000 (equivalent to CAD13,677,000) through other loans.

During the year ended December 31, 2019, the Group issued class “A” common shares of 435,598 shares under general mandate for payment of director fee approximately CAD344,000.

38. SUBSEQUENT EVENTS

a) Interest waiver with holders of senior notes

On February 5, 2021, the Company and the Forbearing Holders entered into an interest waiver agreement (the “Interest Waiver Agreement”) pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per annum on the outstanding amounts (principal and interests) under the Forbearance Reinstatement and Amending Agreement (“FRAA”) dated April 24, 2020 (the “Waiver of Interest”) which amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

b) COVID-19 outbreak

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing in the near future or on terms favourable to the Company. The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time.

- c) The Company received notice for conversion from Prime Union Enterprises Ltd on October 1, 2020 stating that it intended to convert the convertible bonds subscribed under the Subscription Agreement dated April 1, 2020 (Hong Kong time), in full. The resolutions approving such conversion were duly passed at the special general meeting of the Company held on March 5, 2021 (Hong Kong time). On March 4, 2021 (Hong Kong time), the Securities and Futures Commission of Hong Kong granted the whitewash waiver in this connection. As at the date hereof, the conversion has been completed and 113,924,051 Shares were issued and allotted.

39. COMPARATIVE FIGURE

Certain comparative figures have been reclassified to confirm the presentation of the current year for the purpose of better representation of the Group's activities:

Lease liabilities of approximately CAD1,066,000 which had previously been recorded as non-current liabilities in the financial statements for the year ended December 31, 2019, was reclassified as current liabilities.

Loan receivables of approximately CAD11,743,000 and CAD1,668,000 which had previously been recorded as "Trade and other receivables" under current assets and "Other receivables" under non-current assets in the financial statements for the year ended December 31, 2019, was reclassified as "Loan receivables" under current assets and "Loan receivables" under non-current assets respectively.

Other receivables of approximately CAD1,918,000 which had previously been recorded as current assets in the financial statements for the year ended December 31, 2019, was reclassified as "Loan receivables" under non-current assets.

Other receivables of approximately CAD6,261,000 which had previously been recorded as current assets in the financial statements for the year ended December 31, 2019, was reclassified as non-current assets.

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Executive Directors:

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

Non-Executive Directors:

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

Independent Non-Executive Directors:

Mr. Yi He
Mr. Guangzhong Xing
Mr. Alfa Li

AUTHORIZED REPRESENTATIVES:

Mr. Kwok Ping Sun (*Chairman*)
Ms. Man Ngan Chow

AUDITORS:

Prism CPA Limited

AUDIT COMMITTEE:

Mr. Yi He (*Chairman*)
Mr. Guangzhong Xing
Mr. Alfa Li

COMPENSATION COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)
Mr. Guangzhong Xing

Mr. Alfa Li

RESERVES COMMITTEE:

Mr. Yi He (*Chairman*)
Mr. Guangzhong Xing
Mr. Kwok Ping Sun

COMPETENT PERSONS:

GLJ Ltd.

CORPORATE GOVERNANCE COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)
Mr. Michael John Hibberd
Mr. Yi He
Mr. Guangzhong Xing
Mr. Alfa Li

CORPORATE HEADQUARTERS:

Suite 1100, 700 - 6th Ave SW, Calgary,
AB, T2P 0T8, Canada

REGISTERED OFFICE IN ALBERTA:

Suite 4000, 421 Seventh Avenue SW Calgary,
Alberta, T2P 4K9 Canada

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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

SHARE REGISTRAR IN ALBERTA:

Alliance Trust Company

SHARE REGISTRAR IN HONG KONG:

Computershare Hong Kong Investor Services
Limited

LEGAL ADVISERS:

Robertsons Solicitors

WEBSITE: www.sunshineoilsands.com

PLACE OF SHARE LISTING AND STOCK CODE:

The Stock Exchange of Hong Kong
Limited: 2012

PRINCIPAL BANKERS:

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