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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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*If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.*

*If you have sold or transferred all your shares in Sunshine Oilsands Ltd., you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.*

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.*

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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)

**(1) REFRESHMENT OF SCHEME MANDATE LIMIT  
(2) GRANT OF OPTIONS  
(3) CONNECTED TRANSACTION - PROPOSED AMENDMENT TO  
THE JOINT OPERATING AGREEMENT AND OTHER SUPPORTING  
AGREEMENTS  
GOVERNING THE MUSKWA AND GODIN AREAS  
AND  
(4) NOTICE OF SGM**

**Independent Financial Advisor  
to the Special Board Committee and Independent Shareholders**



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*Unless the context otherwise requires, all capitalised terms used in this circular have meanings set out in the section headed "Definitions" of this circular.*

*A notice convening the Special Meeting to be convened and held at 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Central, Hong Kong on Wednesday, October 31, 2018 at 10:30 a.m. (Hong Kong time) / Tuesday, October 30, 8:30 p.m. (Calgary time) is set out on pages 3 to 5 of this circular. A form of Proxy for use at the Special Meeting is also enclosed with this circular. Whether or not you are able to attend the Special Meeting, you are requested to complete the form of Proxy in accordance with the instructions printed thereon and deposit the same with at the Corporation's principal share registrar in Canada, being Alliance Trust Corporation, at Suite 1010, 407 — 2nd Street SW, Calgary, Alberta, Canada T2P 2Y3, or at the Corporation's branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong during regular business hours at least 48 hours before the time appointed for the holding of the Special Meeting or any adjournment thereof. Completion and return of the form of Proxy shall not preclude you from attending and voting in person at the Special Meeting or any adjourned meeting should you so wish.*

October 5, 2018

\*For identification purpose only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, capitalized terms used shall have the following meanings:*

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general business in Hong Kong
“Corporation”	Sunshine Oilsands Ltd., a corporation incorporated under the Business Corporations Act of the Province of Alberta, Canada with limited liability, the Shares of which are listed on the Stock Exchange
“CDN\$”	Canadian dollars, the lawful currency of Canada
“Director(s)”	the director(s) of the Corporation
“Existing Scheme Mandate Limit”	the maximum number of Shares which may be issued upon exercise of all Options which may be granted under the Share Option Scheme shall not exceed 389,998,689 Shares, being 10% of the Shares in issue as at the date of June 23, 2015
“Existing Options”	the share options granted and yet to be exercised under the Share Option Scheme as at the Latest Practicable Date
“Group”	the Corporation and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Advisor” or “Lego Corporate Finance”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
“Latest Practicable Date”	September 21, 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Sun”	Mr. Kwok Ping Sun, the Executive Chairman and a substantial shareholder of the Corporation, who beneficially and indirectly holds through controlled companies, owned 1,682,407,000 Shares of the Corporation in aggregate, representing approximately 27.98% of the issued Shares of the Corporation as at the Latest Practicable Date
“Share Option Scheme” or the “Scheme”	the Post IPO Share Option Scheme adopted by the Corporation on January 26, 2012, as subsequently amended by (i) a resolution passed at the Corporation’s annual general and special meeting held on May 7, 2013; and (ii) a resolution of the Board on June 13, 2013
“Special Board Committee”	the independent committee of the Board, comprising Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He, being all the independent non-executive Directors of the Corporation, formed to advise the Independent Shareholders on the Proposed Amendment (as defined later in this Circular)

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## DEFINITIONS

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"Refreshment of Scheme Mandate Limit"	the maximum number of Shares which may be issued upon exercise of all Options that can be granted under the Share Option Scheme, shall not in aggregate exceed 10% of the Shares in issue as at the date of approval and adoption of the Share Option Scheme and thereafter, if refreshed shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit by the Shareholders
"Share(s)"	Class "A" Common Voting Share(s) of the Corporation
"Shareholders"	holder of the Shares of the Corporation
"Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of the Hong Kong)
"Special Meeting" or "Meeting" or "SGM"	a special meeting of the Corporation to be convened and held at 10:30 a.m. (Hong Kong time) on Wednesday, October 31, 2018 / 8:30 p.m. (Calgary time) on Tuesday, October 30, 2018 to consider, and if thought fit, approve the Refreshment of Scheme Mandate Limit, the grant of Options to Chairman Mr. Sun and the Proposed Amendment
"Takeover Code"	the Hong Kong Code on Takeovers and Mergers
"%"	per cent.

*In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.*

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## NOTICE OF SGM

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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)

### NOTICE OF SGM

**TO BE HELD AT 10:30 A.M. ON OCTOBER 31, 2018 (HONG KONG TIME)  
AND 8: 30 P.M. ON OCTOBER 30, 2018 (CALGARY TIME)**

**NOTICE IS HEREBY GIVEN** that a special meeting (the “**Special Meeting**”) of the holders (the “**Shareholders**”) of Class “A” Common Voting Shares (the “**Shares**”) of Sunshine Oilsands Ltd. (“**Sunshine**” or the “**Corporation**”) will be held at 20/F Two Chinachem Central, 26 Des Voeux Road Central, Hong Kong on Wednesday, October 31, 2018 at 10 : 30 a.m. (Hong Kong Time) / October 30 , 2018 at 8:30 p.m. (Calgary Time), for the purposes of considering and, if thought fit, passing the following resolutions with or without amendments, as ordinary resolutions of the Corporation:

#### **ORDINARY RESOLUTIONS**

1. “**THAT** subject to and conditional upon the Stock Exchange of Hong Kong Limited granting the approval for the listing of, and permission to deal in, the class “A” common voting shares of the Corporation to be issued upon exercise of share options granted under the refreshed scheme mandate limit of the Share Option Scheme as adopted by the Corporation on January 26, 2012, subsequently amended by (i) resolution passed at the Corporation’s annual general and special meeting held on May 7, 2013; and (ii) a resolution of the Board on June 13, 2013 (the “**Share Option Scheme**” or “**Scheme**”), the existing scheme mandate limit in respect of granting of options to subscribe for shares of the Corporation under the Share Option Scheme be refreshed and renewed provided that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme) must not exceed 10% of the shares of the Corporation in issue as at the date on which this resolution is passed (“**Refreshed Scheme Mandate Limit**”); and **THAT** the Directors be and are hereby authorized: (i) to do all such acts and execute all such documents to effect the Refreshed Scheme Limit; (ii) subject to compliance with the Listing Rules, to grant options to subscribe for shares of the Corporation within the Refreshed Scheme Mandate Limit pursuant to the Share Option Scheme; and (iii) to exercise all powers to allot, issue and

\* For identification purposes only

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## NOTICE OF SGM

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deal with shares of the Corporation pursuant to the exercise of options granted under the Share Option Scheme within the Refreshed Scheme Mandate Limit.”

2. “**THAT** the grant of options to Mr. Kwok Ping Sun under the Share Option Scheme on July 5, 2018 to subscribe for an aggregate of 300,000,000 class “A” common voting shares in the capital of the Corporation at an exercise price of HK\$0.236 per Share and on terms and conditions as set out in the circular to the shareholders of the Corporation dated October 5, 2018 be and is hereby ratified, confirmed and approved; and **THAT** any one Director of the Corporation be hereby authorized to do all such further acts or things, to sign and execute all such documents and to take all such steps which in his/ her opinion may be necessary, appropriate, desirable or expedient for the purposes of, or in connection with, implementing and/or giving full effect to such grant and exercise of the options.”

3. “**THAT** the proposed amendment to the terms of the Joint Operating Agreement and the other supporting agreements as set out in the circular dated October 5, 2018 issued by the Corporation (the “**Circular**”), be and are hereby approved, confirmed and authorized; and **THAT** any one Director be and is hereby authorized for and on behalf of the Corporation, amongst other matters, to sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and to do all such things as he may in his absolute discretion consider necessary, expedient or desirable to implement and/or to give effect to or otherwise in connection with the Proposed Amendment as defined in the Circular. ”

### **Time and venue of the Special Meeting**

The Special Meeting will be held at 20/F Two Chinachem Central, 26 Des Voeux Road Central, Hong Kong on Wednesday, October 31, 2018 at 10:30 a.m. (Hong Kong Time) / Tuesday, October 30, 2018 at 8:30 p.m. (Calgary Time).

### **Registered Shareholders**

If you hold Shares in your own name you are a registered shareholder of the Corporation (“Registered Shareholder”). As a Registered Shareholder, if you are unable to attend the Special Meeting in person and wish to ensure that your Shares are voted at the Special Meeting, you must complete, date and sign the enclosed form of proxy and deliver it in accordance with the instructions set out in the form of proxy and in the Circular. Such form of proxy is also published on the website of the Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Corporation at [www.sunshineoilsands.com](http://www.sunshineoilsands.com).

### **Beneficial Shareholders**

If your Shares are held in an account with a brokerage firm or an intermediary (i.e. a broker, investment firm, clearing house or a similar entity), you are a beneficial shareholder of the Corporation (“Beneficial Shareholder”). Beneficial Shareholders should follow the instructions set out in the voting instructions form or other form of proxy provided by your intermediaries to ensure that your Shares will be voted at the Special Meeting.

### **Record Date**

All Registered Shareholders as at 4:30 p.m. on October 4, 2018 (Hong Kong Time) and 2:30 a.m.

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on October 3, 2018 (Calgary time), as the case may be (the “Record Date”), may vote in person at the Special Meeting or any adjournments thereof, or they (including a Beneficial Shareholder) may appoint another person (who need not be a Shareholder) as their proxy to attend and vote in their place.

### **Delivery of Proxy**

Shareholders who receive this Circular and other accompanying meeting materials from the Corporation’s branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, and who are unable to be present at the Special Meeting are requested to date and sign the enclosed form of proxy and return it to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, in the enclosed envelope provided for that purpose.

Shareholders who receive this Circular and other accompanying meeting materials from the Corporation’s principal share registrar in Canada, being Alliance Trust Corporation, and who are unable to be present at the Special Meeting are requested to date and sign the enclosed form of proxy and return it to Alliance Trust Corporation at Suite 1010, 407 – 2nd Street SW, Calgary, Alberta, Canada T2P 2Y3, in the enclosed envelope provided for that purpose.

**In order to be valid, all proxies must be received during regular business hours by Computershare Hong Kong Investor Services Limited or Alliance Trust Corporation as applicable, by at least 48 hours, excluding Saturdays, Sundays and public holidays in Calgary and Hong Kong, before the Special Meeting (i.e. 10: 30 a.m. on October 29, 2018 (Hong Kong time) and 8:30 p.m. on October 26, 2018 (Calgary time), as the case may be), or any adjournment thereof, or deposited with the Chairman of the Special Meeting on the day of the meeting prior to the commencement of the meeting.**

### **Results of the Special Meeting**

The votes to be taken at the Special Meeting will be taken by poll, the result of which will be published on the websites of the Corporation and the Stock Exchange after the Special Meeting.

### **BY ORDER OF THE BOARD OF DIRECTORS**

**SUNSHINE OILSANDS LTD.**

**Kwok Ping Sun**

**Executive Chairman**

Calgary, Alberta, October 5, 2018

Hong Kong, October 5, 2018

*As at the date of this notice, the Board consists of Mr. Kwok Ping Sun and Ms. Gloria Pui Yun Ho as executive Directors; Mr. Michael John Hibberd, Mr. Hong Luo, Ms. Linna Liu and Ms. Xijuan Jiang as non-executive Directors; and Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He as independent non-executive Directors.*



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)

*To the Shareholders*

Dear Sir / Madam,

**(1) REFRESHMENT OF SCHEME MANDATE LIMIT**

**(2) GRANT OF OPTIONS**

**(3) CONNECTED TRANSACTION - PROPOSED AMENDMENT TO  
THE JOINT OPERATING AGREEMENT AND OTHER SUPPORTING  
AGREEMENTS GOVERNING THE MUSKWA AND GODIN AREAS**

**AND**

**(4) NOTICE OF SGM**

Reference is made to the announcement dated July 5, 2018 issued by the Corporation in relation to, among others, the grant of 300,000,000 options to Mr. Kwok Ping Sun.

References are further made to the announcements dated August 19, 2013, September 26, 2013, September 27, 2013, October 21, 2013, July 27, 2018, August 15, 2018, August 17, 2018, August 23, 2018, August 31, 2018 and September 21, 2018, in relation to, among others, the joint operating agreement and other supporting agreements (collectively, the “Agreements”) entered into between the Corporation and Renergy Petroleum (Canada) Co., Ltd. (“Renergy”), with respect to the Corporation’s Muskwa and Godin area oil sands lease (“Leases”) and the proposed amendment to the terms of the Agreements (the “Proposed Amendment”).

At the forthcoming special meeting of Shareholders of the Corporation to be held at 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Central, Hong Kong on October 31, 2018 at 10:30 a.m. (Hong Kong time) / October 30, 2018 at 8:30 p.m. (Calgary time), ordinary resolutions will be proposed to approve (i) the Refreshment of the Scheme Mandate Limit of the Share Option Scheme; (ii) the grant of Options to Chairman Kwok Ping Sun and (iii) the Proposed Amendment.

*\*For identification purposes only*

The purposes of this Circular are to provide Shareholders with information regarding (i) the details of



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## LETTER FROM THE BOARD

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Refreshment of Scheme Mandate Limit of the Share Option Scheme; (ii) the grant of Options to Chairman Kwok Ping Sun ; (iii) further details of the Proposed Amendment; (iv) a letter from the Special Board Committee to the Independent Shareholders in respect of the Proposed Amendment; (v) a letter of advice from the Independent Financial Adviser to the Special Board Committee and the Independent Shareholders (as defined later in relevant section) in respect of the Proposed Amendment; (vi) the notice of Special Meeting; and (vii) other information as required under the Listing Rules.

### **PARTICULARS OF MATTERS TO BE ACTED UPON AT THE SPECIAL MEETING**

#### **1. Refreshment of Scheme Mandate Limit of the Share Option Scheme**

The Corporation adopted the Post IPO Share Option Scheme on January 26, 2012 and this Scheme was subsequently amended by (i) a resolution passed at the Corporation's annual general and special meeting of Shareholders held on May 7, 2013; and (ii) a resolution of the Board on June 13, 2013. Apart from this Share Option Scheme, the Group has no other share option scheme currently in force.

The following section provides a brief summary of the principal terms of the Share Option Scheme, without giving effect to the amendments for which Shareholders' approval is being sought at the Special Meeting, and is qualified in its entirety by the terms and provisions of the Scheme, the full text of which is available under the Corporation's profile at [www.sedar.com](http://www.sedar.com).

#### *Purposes of the Scheme*

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Corporation and to motivate them to strive for the future development and expansion of the Corporation by providing them with the opportunity to acquire equity interests in the Corporation.

#### *Participants*

The Board may, in its discretion, select any directors, officers and employees of the Corporation, the Corporation's subsidiaries and any other persons to participate in the Share Option Scheme.

#### *Option Issuance Thresholds*

The aggregate number of Shares that may be issued under the Share Option Scheme (together with Shares underlying options granted under any other share option scheme) is 389,998,689, representing 10% of Shares outstanding when the Scheme Mandate Limit was last refreshed on June 23, 2015 (and representing approximately 6.49% of the Shares outstanding as at the Latest Practicable Date). This threshold may be increased at a later date with the approval of Shareholders provided that the new limit does not exceed 10% of Shares issued and outstanding as at such date (excluding Shares underlying options granted under the Share Option Scheme and any other share option scheme prior to such date). The Corporation may exceed this limit where Shareholder approval has been sought and obtained in accordance with the provisions of the Share Option Scheme.

#### *Exercise Price*

The Board has the authority under the Scheme to determine the exercise price for the Shares underlying options granted under the Scheme, but the Scheme provides that such exercise price will not be less than the higher of: (a) the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which must be a business day; (b) the volume weighted average trading price of the Shares on the Stock Exchange for the five trading days immediately preceding the offer date; and (c) the average closing price of the Shares as stated in the daily quotation sheet issued by

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## LETTER FROM THE BOARD

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the Stock Exchange for the five business days immediately preceding the offer date; which price, for convenience, shall be expressed in or converted to Canadian dollars at the Bank of Canada noon Hong Kong – Canada exchange rate in effect on that day.

### *Other Terms of Options Granted*

The Board has discretion to specify the terms on which options are granted under the Share Option Scheme. Such terms may include, among other things: (a) vesting periods; (b) performance targets that must be reached before an option can be exercised; (c) the period during which an option may be exercised (the “Exercise Period”), which shall not expire later than 10 years from the date on which the option is offered; and (d) any other terms either on a case by case basis or generally. Currently, no specific terms are set on the options granted.

An option granted to a person in accordance with the Share Option Scheme is not assignable or transferable and the person must not sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party in relation to any option.

### *Expiry*

Option granted under the Scheme lapse automatically and will not be exercisable on the earliest of:

(a) the expiry of the Exercise Period; (b) the date of termination of the grantee’s employment or service by the Corporation or any of its subsidiaries for cause; (c) the date on which the grantee: (i) becomes an officer, director, employee, consultant, adviser, partner of, or a shareholder or other proprietor owning more than a 5% interest in, any competitor; or (ii) knowingly performs any act that may confer any competitive benefit or advantage upon any competitor; (d) the date on which an unconditional general offer, by way of takeover or otherwise, made to all the Shareholders (other than the offeror and any person or person acting jointly or in concert with the offeror) closes; (e) the date, where a plan or scheme of arrangement was made to all Shareholders and was approved at the requisite meeting, that is the record date for determining entitlements under such scheme of arrangement; (f) the date on which a compromise or arrangement (other than as described above) under the ABCA becomes effective; (g) the date of the commencement of the winding up of the Corporation; (h) the expiry of the period for exercising the option referred following a termination for reasons other than for cause; (i) the date on which the person transfers the option; (j) the date on which the person is declared bankrupt or enters into any arrangement or composition with his creditors generally; and (k) in respect of Shares underlying options which are subject to vesting conditions, the date on which the conditions to vesting of the relevant Shares underlying the option are not satisfied.

If the Grantee’s employment or service with the Corporation or its subsidiary is terminated for any reason other than for cause (including any reason of resignation, retirement, death, disability or non-renewal of the employment, service or other agreement upon its expiration) prior to the expiry of the Exercise Period of any option, then the Board shall determine at its absolute discretion whether the grantee will be entitled to exercise the options in respect of vested and unvested shares as at the date of the grantee’s employment or service is terminated. If the Board determines that such option may not be exercised following such termination of employment or service, such option shall automatically expire on the date of the termination

Where the last date on which an option may be exercised in the option period under the grant falls within a period during which the Corporation is in blackout and trading in Shares is prohibited under the Corporation’s policies or within 2 Business Days from the end of such a blackout period, the terms of the Scheme provide that the option period for such grant shall be extended to the date that is 10 business

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## LETTER FROM THE BOARD

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days following the end of the blackout period, except where such extension would result in such option period expiring later than 10 years from the date of grant.

### *Fair Value of Options Granted*

The weighted average fair value of the share options granted for the period ended as at the Latest Practical Date was \$0.04 (year ended December 31, 2017 - \$0.05). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2018 and 2017.

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

<b>Input Variables</b>	<b>Year to date ended Latest Practical Date</b>	<b>Year ended December 31, 2017</b>
Grant date share price (\$)	0.04	0.044-0.05
Exercise price (\$)	0.04	0.044-0.05
Expected volatility (%)	81.52	73.22-74.72
Option life (years)	3.72	3.76-3.79
Risk-free interest rate (%)	1.99	0.93-1.23
Expected forfeitures (%)	15.39	14.64-14.76

As at the Latest Practicable Date, the Corporation considers the disclosure of the value of all options that can be granted is not appropriate as (i) the Corporation does not have any plan to issue additional options from now until the forthcoming Special Meeting; (ii) for the outstanding number of share options that can be granted, it is the Corporation's intend to issue in piecemeal based on circumstances. Therefore, the Corporation believes that by the time the Options are actually granted in the future, the value would be materially different from what can be ascertained as the Latest Practicable Date as the parameters (e.g. expected volatility, share price, exercise price, etc.) would have changed by then. For options that have already been granted, the Corporation considers the above disclosure of value to be sufficient.

The Corporation will make disclosure in its annual report and interim report in accordance with the applicable Listing Rules.

### *Reasons for and Details of Refreshment of Scheme Mandate Limit*

By reason of the substantial enlargement of share capital of the Corporation in recent years, the grant of options to certain Directors per the announcement dated July 5, 2018 and in anticipation of the growing need to provide incentives to, and recognize the contribution of, the eligible participants (including without limitation the Group's Directors, officers and employees) under the Share Option Scheme by way of granting options, the Board proposes to seek Shareholders' approval at the Special Meeting to refresh the 10% scheme mandate limit, with a view to adjusting the Scheme Mandate Limit in order to render it accurately corresponding to the latest share capital of the Corporation, and also allowing more flexibility in granting options to eligible participants under the Share Option Scheme. No Shareholder is required to abstain from voting in respect of the motion for Refreshment of Scheme Mandate Limit.

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## LETTER FROM THE BOARD

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The Existing Scheme Mandate Limit was last refreshed on June 23, 2015. The maximum number of Options which may be granted under the Existing Scheme Mandate Limit shall not exceed 389,998,689 Shares, being 10% of the Shares in issue as at the date of June 23, 2015.

Since then, up to the Latest Practicable Date, 204,946,356 options were granted, exercised, forfeited or expired in aggregate (this figure is excluded from the conditional grant of 300,000,000 options to Mr. Sun which is subject to Shareholders' approval at the Special Meeting, details are set out in the section headed "**2) Grant of Options to Chairman Kwok Ping Sun**" in this Circular). The outstanding 204,946,356 options entitling the subscription of up to 204,946,356 Shares, representing approximately 3.41% of the Shares outstanding as at the Latest Practicable Date. Apart from the current Share Option Scheme, the Corporation has no other share option scheme currently in force. And, apart from the aforesaid outstanding 204,946,356 options granted under the Scheme, the Corporation has no outstanding options to subscribe for Shares.

As at the Latest Practicable Date, the Corporation had an aggregate of 6,013,596,172 Shares in issue. Assuming that no further Shares will be issued or repurchased prior to the Special Meeting, subject to the passing of the resolution for approval of the Refreshment of the Scheme Mandate Limit, the Directors will be authorized to grant 601,359,617 Options to subscribe for a maximum total of 601,359,617 Shares, representing 10% of the Shares in issue as at the date of the Special Meeting. Options lapsed in accordance with the terms of the share option schemes of the Corporation will not be counted for the purpose of calculating the 10% limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with the schemes or exercised Options) will not be counted for the purpose of calculating the limit as "refreshed".

The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the Shares of the Corporation in issue from time to time. On the basis of 6,013,596,172 Shares in issue as at the Latest Practicable Date, the 30% overall limit represented a total of 1,804,078,851 Shares. As at the Latest Practicable Date, the total number of outstanding Options was 204,946,356. The maximum number of Shares which might be issued upon the exercise of the outstanding Options together with the Refreshment Scheme Mandate Limit arising from the refreshment of the Scheme Mandate Limit amounted to 806,305,973, which represents approximately 13.41% of the issued Shares as at the Latest Practicable Date, and accordingly, did not exceed the 30% overall limit.

No options will be granted under the Scheme if this will result in the limit being exceeded. If the Corporation conducts a share consolidation or subdivision after the 10% limit has been approved in general meeting, the maximum number of securities that may be issued upon exercise of all options to be granted under all of the schemes of the Corporation under the 10% limit as a percentage of the total number of Shares in issue at the date immediately before and after such consolidation or subdivision shall be the same.

The Board has discretion to specify the terms on which options are granted under the Scheme, such as performance targets that must be reached before an option can be exercised; such performance targets could include but not limited to production volume, annual downtime, etc. Currently, for all options that are granted, no performance targets have been set. Should the Corporation issue options with performance targets in future, relevant disclosures will be made in accordance with the Listing Rules.

### *Amendment of the Scheme*

The Board may alter any of the terms of the Share Option Scheme at any time, provided that any alterations to the key terms of the Share Option Scheme (including inter alia those that relate to who can participate, the issuance thresholds, determining the exercise price and the cancellation and termination

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## LETTER FROM THE BOARD

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of options granted) to the advantage of participants or any changes to the terms of the options granted under the Scheme must be approved by Shareholders in a general meeting and provided that any alterations to the amendment provisions of the Scheme or which are, in the opinion of the Board, of a material nature must be approved by Shareholders in a general meeting.

The Scheme also requires shareholder approval for any amendment that would: (i) remove or exceed the limits for options granted to “connected persons” (as defined under the Listing Rules) and insiders under the Scheme; (ii) reduce the price at which Shares are purchased under the Scheme; (iii) expand the definition of “Participants” under the Scheme; or (iv) amend the amendment provisions of the Scheme.

The Board may amend the Scheme or any grant of options made thereunder provided it obtains the prior approval of the SEHK or any other applicable regulatory authority or stock exchange and provided it obtains the consent or deemed consent of any participant whose rights would be materially prejudiced by the amendment.

### *Amendments made by the Board in 2013*

On June 13, 2013, the Board, with the approval of the SEHK, amended the Scheme to permit the Corporation to provide loans on commercial terms to any Scheme participant (excluding directors and “connected persons”, as such term is defined under the Listing Rules) to exercise options granted under the Scheme in accordance with relevant laws and regulations. As the Board determined that this amendment was not material to the Scheme, the Board determined it was unnecessary under the terms of the Scheme to seek Shareholder approval for the amendment.

As at the Latest Practicable Date, the Corporation has not proposed any further grant of options. In future, the Corporation will consider granting further options up to the Scheme Mandate Limit to eligible participants from time to time, including but not limited to officers, directors, employees, advisors, consultants, agents or such other persons who, in the opinion of the Board, will contribute or have contributed to the Group in accordance with the terms of the Share Option Scheme and the Listing Rules.

The Refreshment of Scheme Mandate Limit is conditional upon:

- (i) the passing of an ordinary resolution at the Special Meeting to approve the Refreshment of the Scheme Mandate Limit by the Shareholders; and
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares, representing 10% of the number of the issued Shares as at the date of the Special Meeting which may fall to be allotted and issued pursuant to the exercise of options granted under the Refreshment of Scheme Mandate Limit pursuant to the Share Option Scheme.

Application will be made to the Stock Exchange for the approval mentioned in paragraph (ii) above.

The Directors consider that the Refreshment of Scheme Mandate Limit is in the interests of the Corporation and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 2. Grant of Options to Chairman Kwok Ping Sun

The Share Option Scheme further provides that the number of Shares issued to insiders (as defined under the Share Option Scheme) of Sunshine within any 12-month period, and the number of Shares to be issued, must not exceed 10% of Sunshine's total issued and outstanding Shares in issue from time to time.

The aggregate number of Shares issued or to be issued to any one person under the Scheme 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 from time to time, unless shareholder approval has been sought and obtained in accordance with the provisions of the Scheme (and with the person receiving such option grant abstaining from voting).

Under 17.04 (1) of the Listing Rules, approval from Independent Shareholder (shareholders of a listed issuer excluding the votes of the grantee, his associates, and all core connected persons of the listed issuer) is required where any grant of options under the scheme to a substantial shareholder (as defined in the Listing Rules) or any of their respective associates would result in the securities issued and to be issued upon exercise of all options already granted and any other share option schemes of the listed issuers in the 12-month period up to and including the grant date in aggregate exceed 0.1% of the Shares in issue on the grant date and have an aggregate value, based on the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the grant date, in excess of HK\$5 million.

On July 5, 2018, the Board (including independent non-executive Directors and with Mr. Sun abstain from voting) resolved to offer the grant of 300,000,000 options to Mr. Kwok Ping Sun (the Executive Chairman and Substantial Shareholder of the Corporation) under the Share Option Scheme.

As the total number of Shares issued and to be issued upon exercise of the options granted to Mr. Sun, would in a 12-month period exceed 1% of the Shares in issue, the grant of Options to and acceptance thereof by Mr. Sun is conditional upon the approval by the Independent Shareholders (Shareholders other than Mr. Sun (being the grantee), his associates and all core connected persons of the Corporation) at the forthcoming Special Meeting with (i) Kwok Ping Sun ; (ii) his associate(s) (as ascribed thereto under Rule 1.01 of the Listing Rules) and (iii) all core connected persons (as defined under the Listing Rules) of the Corporation abstaining from voting. Such grant shall not take effect or be exercisable until such approval is obtained and proper compliance with applicable laws and regulations.

If any grant of options as detailed below has not been accepted by Mr. Sun, has not been approved by the Independent Shareholders (Shareholders other than Mr. Kwok Ping Sun, his associate(s) and all core connected persons of the Corporation) or is not otherwise in compliance with the applicable laws and regulations, such grant would not proceed or be effective for legal and regulatory purposes. The following are the details of the options granted to Mr. Sun:

Date of grant	: July 5, 2018 (Hong Kong Time)
Exercise price of options granted <sup>(1)</sup>	: HK\$0.236 (CDN\$0.039 equivalent) <sup>(1)</sup> per Share
Closing price of the Shares on the date of grant	: HK\$0.230
Validity period of the options	: Five (5) years

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## LETTER FROM THE BOARD

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*Note:*

- 1. The options were priced in Hong Kong dollars and the Canadian dollar price is based on the Bank of Canada noon exchange rate on the date of grant. Each option shall entitle each of the grantees to subscribe for one Share upon exercise of such option at an exercise price of HK\$0.236 (CDN\$0.039 equivalent) per Share, which is higher than (i) the closing price of HK\$0.230 (CDN\$0.039 equivalent) per Share as quoted on the Stock Exchange on the date of grant of the options; and (ii) the average closing price of HK\$0.236 (CDN\$0.039 equivalent) per Share as quoted on the Stock Exchange for the 5 trading days immediately preceding the date of grant of the options.*

The options granted to Mr. Sun represents approximately 4.99% of the total issued shares of the Corporation as at the Latest Practicable Date. The Shares to be allotted upon the exercise of an option shall be subject to all provisions of the Articles of Incorporation and By-Laws of the Corporation and shall rank pari passu in all respects with and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation of the Corporation) as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue.

As at the Latest Practicable Date, Mr. Sun was beneficially interested in 737,669,500 Shares. Tai Feng Investments Ltd. (“Tai Feng”) and Prime Union Enterprises Limited (“Prime Union”), both companies are entirely owned and controlled by Mr. Sun, were interested in 427,837,500 and 516,900,000 Shares of the Corporation respectively. Hence, Mr. Sun together with his associates (as ascribed thereto under Rule 1.01 of the Listing Rules), were interested or deemed to be interested in 1,682,407,000 Shares in aggregate, representing 27.98% of all the issued Shares of the Corporation. Mr. Sun, his associate(s) and all core connected persons of the Corporation will abstain from voting regarding this motion and such grant shall not take effect or be exercisable until such approval is obtained.

As at the Latest Practicable Date, there were 204,946,356 options outstanding (excluding the conditional granted 300,000,000 options as mentioned above). Among which, 46,679,000 options were granted to Mr. Sun on September 23, 2016. These options are valid for a period of (5) five years up to and including September 23, 2021 at an exercise price of HK\$0.592 per Share.

The Shares to be issued upon full exercise of the 300,000,000 options will be made under the Scheme Mandate Limit to be refreshed at the Special Meeting.

### *Reasons for the grant of options*

The Corporation is a Calgary based public corporation, listed on the Stock Exchange since March 1, 2012 and is focused on evaluating and developing of its significant holdings of oil sands leases in the Athabasca oil sands region.

The Corporation relies heavily 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. As stated in the 2018 interim results announcement, the Corporation has invested approximately CDN\$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 June 30, 2018.

Mr. Kwok Ping Sun, joined the Group in May 2015 and was appointed as the Executive Chairman and Executive Director of the Corporation since June 28, 2015. He 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. Besides, 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 Engineers of Zhangjiagang Radio Factory

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## LETTER FROM THE BOARD

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between 1972 and 1982.

With extensive management experience in the energy industry, Mr. Sun is responsible for overall strategic planning and general management of the Group and is instrumental to the growth and business expansion of the Group.

Under the leadership of Chairman Sun, the Corporation's West Ells Project Phase I achieved oil production in late 2015. All eight West Ells Phase I well pairs were placed into SAGD production. In March 2017, the West Ells Project commenced commercial production and the Corporation started recording revenue, royalties, expenses and depletion of the West Ells Project. From 7 May 2018 to 1 September 2018, Mr. Sun assumed direct responsibility of CEO as the former CEO resigned.

As mentioned before, as the Group's operation, administration, future business development relies heavily on various forms of financing. Mr. Sun, continuously showed his financial supports to the Corporation during difficult time, through various significant direct equity investments or provision of financial assistance.

During the year ended 2016, Mr. Sun has provided equity financing to the corporation through subscription of 413,520,000 Common Shares in total by Prime Union (a company controlled by Mr. Sun). The Corporation received total gross proceeds of HK\$310,140,000 (approximately CDN\$52.3 million) in this subscription.

Mr. Sun also provided financial assistance to the Corporation through several unsecured loans in the recent years. On January 19, 2016, the Corporation signed an unsecured loan agreement with Tai Feng, a company 100% owned by Mr. Sun. The loan could be drawn up to HKD \$38.0 million. A second loan agreement was signed effective from April 14, 2016 with Tai Feng. This loan had the same terms as the loan on January 19, 2016. On July 31, 2016, the 2 loans on January 19 and April 14, 2016 (principal and interest) were converted into equity through private placements.

For instances on August 24, 2017, November 16, 2017 and November 28, 2017, Prime Union provided 3 loans totaling HKD \$33.7 million (approximately CAD \$5.4 million) to the Corporation. On June 1, 2018, the Company signed a loan agreement with Prime Union for HKD \$14.2 million (approximately CAD \$2.4 million).

The financial support was crucial to the Corporation, especially during the time when the local stock market and commodity market are experiencing an unfavorable climate, fragile and challenging in recent years. It provided the Corporation an alternative, which is quick, reliable and secure capital source of finance resources to support the Corporation's existing operations and to fund its Phase II expansion plans in West Ells and in other project areas.

In addition, per the Corporation's announcement dated July 27, 2018, a Corporation affiliated (the "Affiliate") with Mr. Sun and Nobao Energy Holding (China) Corporation Limited ("Nobao") (both companies are under the control of Mr. Sun) had conditionally acquired the equity interest in Renergy Petroleum (Canada) Co., Ltd, a joint venture formed for the purpose of planning and developing the Corporation's Muskwa and Godin area oil sands leases. Subject to approval from Independent Shareholders (Shareholders exclude Mr. Kwok Ping Sun, his associate(s) and Ms. Jiang at the forthcoming Special Meeting), under the proposed amendment to the terms of the joint venture, Renergy will be responsible for all expenditures in the Muskwa and Godin areas until October 2023 but without any capital expenditures targets or capital commitment imposed on Sunshine's side. Moreover, Nobao will bring in technologies and its technologies may be used throughout the Muskwa and Godin areas without any capital contribution or payment requirement from Sunshine.



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## LETTER FROM THE BOARD

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The Corporation also had 3 forbearances in its USD200m Senior Notes over the past 2 years, the success of which relied heavily upon Mr. Sun. The forbearances were concluded with heavy discussion between the Noteholders and Mr. Sun, on which the Noteholders have heavy trust on. The Noteholders see Mr. Sun as the key person that can change and turnaround the Corporation as they understand Mr. Sun's principles in running the company and long-term plans for Sunshine over the past 3 years. He has abundant financial resources, business relationships and as well technologies (through Nobao) that could help Sunshine and carry out his plans. Without the forbearance in place, Sunshine have gone into going concern problem. Sunshine is in the process of discussing for another forbearance as the Senior Notes were matured on August 1, 2018. The Corporation believes that Mr. Sun will again play his role as a key person in discussion with and stabilizing the Noteholders.

The management has considered other means to reward and incentivizes Mr. Sun, such as paying cash bonuses, remuneration increment or giving Shares under the Share Option Scheme. Paying cash bonuses or increasing cash remuneration will result in increased expenses and an outflow of cash from the Corporation equivalent to the amount of such cash payment.

The Directors are of the view that granting options to Mr. Sun would be the most appropriate means at this point as the grant of options would enable the Group to conserve its cash resources while serving the purposes to reward the contribution made by Mr. Sun, and to retain and incentivize him for making more future contribution to the Group continuously.

The Board's resolution to conditionally grant the 300,000,000 options to Mr. Sun at an exercise price of HKD\$0.236 per option (representing approximately 4.99% of the Shares in issue of the Corporation as at the Latest Practicable Date) was based on the recommendation by the Compensation Committee of the Corporation which had made references to the prevailing market conditions and the prospective roles as well as responsibilities of Mr. Sun in the Corporation.

The Compensation Committee, before making conclusion and recommendation to the Board, has conducted a research on the local listed issuers which underwent the same scenario, i.e. granting options to directors, chief executives or senior management, for the past twelve months. It is considered that immediate past twelve months would be sufficient to show the prevailing market benchmark.

Set out below is the findings that local Main Board listed issuers granted options to an individual pursuant to their share options schemes and under Chapter 17 of the Listing Rules:-

Stock Code	Abbreviation of Listed Issuers' Name	Date of Circular	Approx. % of options granted to an individual to the then issued share capital of the respective issuers
1302	LIFETECH SCI	8/17/2018	0.9%
1486	C CHENG HLDGS	8/3/2018	3.0%
351	Asia Energy Log	8/1/2018	2.9%
818	HI SUN TECH	7/11/2018	2.9%
1039	FORTUNET E-COMM	6/15/2018	4.0%
2014	OZNER WATER	5/14/2018	2.5%
1086	GOODBABY INTL	5/11/2018	2.1%
2007	COUNTRY GARDEN	4/30/2018	1.6%
159	BROCKMAN MINING	4/10/2018	1.0%
860	WE SOLUTIONS	4/4/2018	0.9%
1066	WEIGAO GROUP	2/28/2018	2.6%
33	ASIA INV FIN	2/27/2018	2.7%

## LETTER FROM THE BOARD

Stock Code	Abbreviation of Listed Issuers' Name	Date of Circular	Approx. % of options granted to an individual to the then issued share capital of the respective issuers
656	FOSUN INTL	2/1/2018	2.0%
1710	TRIO IND ELEC	1/26/2018	0.7%
818	HI SUN TECH	1/19/2018	6.0%
3377	SINO-OCEAN GP	12/13/2017	5.0%
2280	HC GROUP	11/20/2017	3.0%
1486	C CHENG HLDGS	11/7/2017	1.2%
3380	LOGAN PPT	11/6/2017	0.2%
572	FUTURE WORLD FH	10/13/2017	0.8%
3638	HUABANG FIN	10/12/2017	2.2%
1430	SUCHUANG GAS	8/24/2017	2.2%
729	FDG EVEHICLES	8/8/2017	1.0%

The above comparables are an exhaustive list of Main Board listed issuers granting options to their directors, chief executives or key personnel, issued circular and seek shareholders' approval in connection therewith, during the past twelve months starting from Latest Practicable Date.

Based on the above table, for the past (12) twelve months, the approximate percentage ratios of options granted to key person (to an individual) to the then issued share capital of listed issuers are ranging from 0.2% to 6%.

The amount of Options granted to Mr. Sun is approximately 4.99% to the total number of issued Shares as at the Latest Practicable Date and is within the range. It is of the view that although all of the Main Board comparables identified are related to rewarding key personnel, directors or chief executives of the company for their contributions with share options, the importance of Mr. Sun's contribution to Sunshine outweighs that of the other option grantees in the comparables table to their respective companies. The comparables (those with relatively high percentage of their issues shares in option grant in particular) are financially strong. They have positive operating cashflow, strong balance sheet and are profit-making. They do not have much difficulties in financing as banks / financial institutions provide them with abundant borrowings as can be seen in their balance sheets. The objective of these comparable companies is mostly to seek business growth or expansion into new business. Different from these cases, Sunshine's objective is of two-folds: to maintain survival with years of significant net loss and negative cashflow whilst looking for ways to develop and turnaround. Limited source of funds and high difficulty in financing in the market create extra hardship and pressure for Sunshine. If it was without the support of Chairman Sun, the company would not have reached this level of development as at the Latest Practicable Date. The Board therefore selected the highest percentage in the comparable percentage range to reflect the importance of Mr. Sun's contribution while leaving some room for option grants for new hires or high performing staff from the Latest Practicable Date to the next annual general meeting during which scheme limit is expected to be refreshed. The Board considers that following the highest percentage (i.e. 6%) in the comparable analysis may leave too little room for future grants from Latest Practicable Date to next annual general meeting, especially several new management team members joined the Corporation recently. It is further considered that Sunshine will then be able to maintain a closer relationship through proper recognition and incentivization of such contribution with the share option grant.

Moreover, Mr. Sun has irrevocably undertaken to the Corporation that he will not trigger a mandatory offer obligation under Rule 26 of Takeovers Code when exercising the options granted under the Share Option Scheme.

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## LETTER FROM THE BOARD

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All independent non-executive Directors of the Corporation, namely Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He were appointed to advise the Independent Shareholders (Shareholders excluding Mr. Kwok Ping Sun, his associate(s) and all core connected persons of the Corporation) in connection with the conditional grant of 300,000,000 options to Chairman Kwok Ping Sun. Having considered all the above factors, the Directors (including independent non-executive Directors) are of the view that the conditional grant of 300,000,000 options to Kwok Ping Sun is fair and reasonable so far as the Independent Shareholders (Shareholders other than Mr. Kwok Ping Sun, his associate(s) and all core connected persons of the Corporation) is concerned and is in the interests of the Corporation and its Shareholders as a whole.

### **3. Proposed Amendment to the terms of Agreements**

#### *Background*

On October 21, 2013, the Corporation entered into the joint operating agreement and other supporting agreements (the “Agreements”) with Renegy Petroleum (Canada) Co., Ltd., an affiliate of Changjiang Investment Group Co., Ltd. (“Changjiang”), with respect to the Corporation’s Muskwa and Godin area oil sands leases (the “Leases”). Excluded from the Agreements are all of Sunshine’s oilsands right within the carbonate formations contained within the Leases.

Pursuant to the Agreements, Renegy would operate the assets as the operator. Application regarding the construction and operation of a single well thermal pilot project at the Muskwa area was submitted in July 2014 and approved on January 26, 2015. As at the Latest Practicable Date, there is no production from Muskwa wells and there are no active planning or development activities occurring.

Per the announcement dated July 27, 2018 issued by the Corporation, a Corporation affiliated (the “Affiliate”) with Kwok Ping Sun, the Executive Chairman and Substantial Shareholder (as defined under the Listing Rules) of the Corporation and Nobao Energy Holding (China) Corporation Limited (“Nobao”) (a Corporation under the control of Mr. Sun) has conditionally acquired Changjiang’s interest in Renegy. Ms. Xijuan Jiang (“Ms. Jiang”), non-executive Director of the Corporation, is the vice president of Nobao. The Affiliate has received the Board’s conditional approval (with Mr. Sun and Ms. Jiang abstaining from voting) for this acquisition and has requested amendments to certain terms in the Agreements (the “Proposed Amendment”) with an aim to simplify the working relationship between contracting parties to the Agreements and to incentivize Renegy as operator to spend significant capital to proceed with an enhanced oilsands recovery scheme in the Muskwa and Godin areas. Accordingly, the Affiliate and Nobao are associates of Mr. Kwok Ping Sun and Ms. Jiang and are connected persons of the Corporation. The Proposed Amendment constituted a connected transaction to the Corporation under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rule exceeds 5%, the Proposed Amendment is subject to announcement requirements, annual review and independent shareholders’ approval as required under the Listing Rules.

In future, should the new joint venture arrangement involve Sunshine’s provision of goods or services or financial assistance on a continuing or recurring basis and extend over a period of time, the Corporation will issue further announcements for re-classification the transactions contemplated thereunder as continuing connected transactions. The Corporation further assures that it will fully comply with the requirements under the Listing Rules if the applicable percentage ratios set out in Rule 14.07 in respect of the transactions contemplated under the new joint venture arrangement, in aggregate, within a 12-month period, trigger the reporting, announcements, annual review and/or independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Further independent shareholders’ approval will be sought to this end, if applicable and necessary.

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## LETTER FROM THE BOARD

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### *Subject*

Set out below is the proposed amendment to the terms of the Agreements: -

(1) Any outstanding amounts payable from Renergy to Sunshine will be made from Renergy's future production entitlements revenues. As at the Latest Practicable Date, the outstanding amounts due from Renergy include unpaid lease payments made on its behalf, unpaid royalties and unpaid service fees and costs, which are CDN\$1,520,156.47, CDN\$50,354.76, and CDN\$120,098.79 respectively. Save as these outstanding amounts, the Board is unaware of any other outstanding due from Renergy. The Board is also unaware of any other payable items due from Renergy in foreseeable future.

(2) The Outside Date of the Agreements is to be extended from October 20, 2019 to October 20, 2023. Renergy will be responsible for all the expenditures in the Muskwa and Godin areas until October 20, 2023. There will be no capital expenditures targets or Commitment Caps specified in the Agreements.

(3) Working Interests to be 60% Renergy and 40% Sunshine in all oilsands formations in the oilsands leases and in all conventional gas lease in the Muskwa and Godin areas. Based on the current terms in the Agreement, Renergy and Sunshine each have 50% Working Interests initially and Renergy's Working Interest, limited to clastics portions of the oilsands leases, is subject to the Working Interest clawback conditions.

(4) Both the Corporation and Renergy shall each pay annual oilsands and conventional lease amounts in proportion to their respective working interests. Save as the annual lease payment in proportion to the respective working interests ratio (i.e. CDN\$142,401 for Sunshine's portion), Sunshine has no obligation to pay any other expenditure or has any other liability.

(5) If Renergy fails to achieve a production level of 500 barrels per day for any consecutive 20-day period on or prior to October 20, 2023, Renergy's 60% Working Interest will be forfeited on October 20, 2023.

(6) Nobao will bring in technologies and Nobao's technologies may be used throughout the Muskwa and Godin areas without compensation to Nobao but the technology ownership rights remain with Nobao.

(7) Sunshine's management is to ensure an orderly transition with the new owners of Renergy, however, if long term roles are being filled by Sunshine personnel, services contracts shall be negotiated.

The aforesaid Proposed Amendment is conditional on receipt of all required stakeholders' approvals and on the execution of legally binding agreements.

### *Information on Renergy*

Renergy is the joint venture formed under the Agreements involving the Corporation's Muskwa and Godin area oilsands leases. Pursuant to the Agreements, Renergy will operate the assets as the Operator.

### *Reasons for and Benefits of the Proposed Amendment to the Terms of the Agreements*

The Corporation is a Calgary based public corporation listed on the Hong Kong Stock Exchange since March 1, 2012. The Corporation is focused on the development of its significant holdings of oil sands leases in the Athabasca oil sands region. The Corporation owns interests in approximately one million acres of oil sands and petroleum and natural gas leases in the Athabasca region. The Corporation is

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## LETTER FROM THE BOARD

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currently focused on executing milestone undertakings in the West Ells project area. West Ells has an initial production target of 5,000 barrels per day.

The Agreements was first signed in October 2013. Application regarding the construction and operation of a single well thermal pilot project at the Muskwa area was submitted in July 2014 and approved on January 26, 2015. Nevertheless, as at the Latest Practicable Date, there is no production from Muskwa wells and no active planning or development activities occurring due to insufficient spending on enhanced recovery technology programs. The annual rentals payable for the oil sands leases in Muskwa/ Godin are CDN\$356,003, CDN\$325,539 for Muskwa and CDN\$30,464 for Godin. Crown rentals (the annual oilsands and conventional lease rentals payable to the Alberta Crown) are calculated at a fixed rate of CDN\$3.50 per hectare and the Muskwa lease area is 93,011 hectares with Godin at 8,704 hectares.

The Proposed Amendment provides a reasonable incentive for Renergy to expend funds to establish economic oil production that is subject to lower oil production royalties. Based on the Mines and Minerals Act, Oil Sands Royalty Regulation, 2009 (Alberta Regulation 223/2008), the project in Muskwa/ Godin is within the designated Oil Sands Area of Alberta, and therefore this project will be approvable for lower royalty rates accordingly. The reduced royalty rates offered to wells in qualifying oil sands projects where they enjoy 1-9% royalties payable when the project is operating in pre-payout condition. Only when the project is in a post-payout state do royalties begin to rise. This compares to royalty rates for conventional oil production rising as high as 40% from wells "not" in recognized and approved oil sands projects. This difference in royalty expense provides for a quicker return of capital for approved oilsands projects to reward the more costly investment required by [oilsands projects](#). Renergy remains as the operator and will be the one to make significant capital spending for the next 5 years with the aim to turn Muskwa and Godin projects into an actively producing project for Sunshine with an initial target of 500 barrels per day production.

Besides, it is believed that Muskwa and Godin project is a commercially attractive and viable project as it is relatively close to delivery locations, will be subject to lower oil production royalties (upon approval of an enhanced recovery scheme using Nobao Technologies) and the oil produced can be marketed without adding high cost diluents.

Moreover, the proposed amendment terms contained proper terms for distributions (in the Working Interest clauses), penalty (if Renergy cannot meet the production level of 500 barrels per day in any 20 consecutive days period before October 20, 2023, Renergy's 60% Working Interest will be forfeited) and termination clauses. Save as the Proposed Amendment, all of the terms of the original set of Agreements and its supporting agreements, subject to conforming edits resulting from the proposed amendment, (which were executed between Sunshine and Renergy which at that time was an independent external party) will be adopted.

In addition, because of the relationship between the Affiliate and Nobao, Nobao's technologies will be allowed to be applied in Muskwa and Godin areas without any need to compensate Nobao. The technologies are expected to enhance oil mobility for the project at a low cost.

Currently, Sunshine cannot invest existing cash resources into Muskwa since it is bound by the covenants of the Senior Notes which limit capital spending into projects other than the West Ells project until West Ells production is at 10,000 barrels per day. The Proposed Amendment provides a golden opportunity to Sunshine to develop and expand its current business without investing additional funds or resources.

In spite of Renergy's obligation to pay its share of these lease payments, it failed to do so and Sunshine has been paying, without reimbursement from Renergy, the full amount of the lease rentals to the Alberta

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## LETTER FROM THE BOARD

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Crown in order to retain the leases. Non-payment of the full amount of the lease rentals would result in the lease defaulting to the Crown. As the Latest Practicable Date, Renergy has an outstanding amount for unpaid lease payments made on its behalf and for unpaid service fees and costs of CDN\$ 1,690,610.02 due to Sunshine. Renergy will only make payments out of its oil production entitlement. The Board notes that Renergy has CDN\$3.6 million on deposit with the Alberta Energy Regulator under the Licensee Liability Program. Any restart of production as Muskwa will see gradual cash refund of the deposit to Renergy. Hence, the Corporation sees this as an additional economic incentive for Renergy to achieve production at Muskwa and considers that the possibility of no revenue for repayment to Sunshine is low.

Taking into accounts the above factors, it is beneficial to the Corporation to have a co-owner of a project interest pay its share of lease rentals on time and to generally meeting their financial responsibilities to the project without placing a burden on Sunshine to make any payments beyond those payments agreed to in the documents governing the joint venture. In addition, the receipt of approval for an oilsands recovery project allows Sunshine to benefit from the lower royalty regime, which results in increased net returns on production.

The Directors (including the independent non-executive Directors) considered the Proposed Amendment are (a) on commercial terms; (b) fair and reasonable and (c) in the interests of the Corporation and its Independent Shareholders (Shareholders excluding Mr. Kwok Ping Sun, his associates and Ms. Jiang) as a whole.

### *Hong Kong Listing Rules Implications*

As at the Latest Practicable Date, Mr. Sun, together with his associates (Prime Union and Tai Feng) were in aggregate interested or deemed to be interested in 1,682,407,000 Shares of the Corporation. Ms. Xijuan Jiang, non-executive Director, was interested in 300,000 Shares of the Corporation.

Mr. Sun, being the Executive Chairman and Substantial Shareholder of the Corporation, owned and controlled both the Affiliate and Nobao. Ms. Xijuan Jiang is the vice president of Nobao. Hence, the Proposed Amendment to the terms of the Agreement and the ongoing new joint venture arrangement constituted connected transaction to the Corporation.

As one of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) exceeds 5%, the Proposed Amendment is subject to the announcement requirements, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Meanwhile, should the new joint venture arrangement involve Sunshine's provision of goods or services or financial assistance on a continuing or recurring basis and extend over a period of time in future, the Corporation will issue further announcements for re-classification the transactions contemplated thereunder as continuing connected transactions. In addition, if the applicable percentage ratios set out in Rule 14.07 in respect of the transactions contemplated under the new joint venture arrangement, in aggregate, within a 12-month period, trigger the reporting, announcements, annual review and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules, the Corporation assures that it will fully comply with the requirements under the Listing Rules. Separate shareholders' approval will be sought to this end, if applicable and necessarily.

### SPECIAL MEETING

A Special Meeting will be convened to consider and approve (i) the Refreshment of Scheme Mandate Limit; (ii) the grant of options to Chairman Kwok Ping Sun; and (iii) the Proposed Amendment. A notice convening the Special Meeting is set out on pages 3 to 5 of this Circular.

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## LETTER FROM THE BOARD

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The Special Meeting will be held on October 31, 2018 at 10:30 a.m. (Hong Kong time) / October 30, 2018 at 8:30 p.m. (Calgary Time) at 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Central, Hong Kong.

### RECOMMENDATION

All independent non-executive Directors of the Corporation, namely Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He were appointed to advise the Independent Shareholders (Shareholders excluding Mr. Kwok Ping Sun, his associate(s) and all core connected persons of the Corporation) in connection with the conditional grant of 300,000,000 options to Chairman Kwok Ping Sun. Having considered all the above factors, the Directors (including independent non-executive Directors) are of the view that the conditional grant of 300,000,000 options to Mr. Kwok Ping Sun is fair and reasonable so far as the Independent Shareholders (Shareholders other than Mr. Kwok Ping Sun, his associate(s) and all core connected persons of the Corporation) are concerned and is in the interests of the Corporation and its Shareholders as a whole.

A Special Board Committee has been established to advise the Independent Shareholders (Shareholders excluding Kwok Ping Sun, his associate(s) and Ms. Xijuan Jiang) on whether the Proposed Amendment and the transaction contemplated under the new joint venture arrangement are fair and reasonable and an Independent Financial Advisor has been appointed to advise the Special Board Committee and the Independent Shareholders (Shareholders excluding Kwok Ping Sun, his associate(s) and Ms. Xijuan Jiang) in this connection.

The text of the Letter from the Independent Financial Advisor containing its advice to the Special Board Committee and the Independent Shareholders (Shareholders excluding Kwok Ping Sun, his associate(s) and Ms. Xijuan Jiang) is set out on page 31 to 39 of this circular and the text of the letter from the Special Board Committee to the Independent Shareholders (Shareholders excluding Kwok Ping Sun, his associate(s) and Ms. Xijuan Jiang) is set out on page 29 to 30 of this circular.

The Board (including the independent non-executive Directors) considers that (i) the Refreshment of Scheme Mandate Limit of the Share Option Scheme; (ii) the grant of Options to Chairman Kwok Ping Sun; (iii) the Proposed Amendment to the terms of the Agreement are entered into in the ordinary and usual course of business of the Group; the terms and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable and in the interests of the Corporation and its Shareholders as a whole.

Accordingly, the Board recommends that the Shareholders to vote favor of all the resolutions, namely, the Refreshment of Scheme Limit, the grant of 300,000,000 options to Chairman Kwok Ping Sun and the Proposed Amendment to the terms of the Agreements.

### GENERAL PROXY INFORMATION

#### Solicitation of Proxies

This Circular is furnished in connection with the solicitation of proxies by or on behalf of the management of the Corporation for use at the Special Meeting of Shareholders of the Corporation to be held at 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Central, Hong Kong on October 31, 2018 at 10:30 a.m. (Hong Kong time) and any adjournment thereof for the purposes set forth in the notice accompanying with this Circular.

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## LETTER FROM THE BOARD

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The cost of this solicitation of proxies is borne by the Corporation. It is expected that the solicitation will be primarily by mail, but proxies or votes or voting instructions may also be solicited personally or by telephone, facsimile, e-mail, or other means of communication by directors, officers and regular employees of the Corporation.

### Voting at the Meeting

Registered Shareholders are invited to attend the Special Meeting, vote their Shares or appoint another person (who need not be a Shareholder) to act as their proxy and vote in their place, as described below under the heading “*Proxy Information for Registered Shareholders*”. Beneficial Shareholders are invited to attend the Special Meeting, but in order to vote their Shares they must follow the procedures described below under the heading “*Proxy Information for Beneficial Shareholders*”.

## PROXY INFORMATION FOR REGISTERED SHAREHOLDERS

### Appointment of Proxy Holder

A proxy is a document that authorizes someone else to attend the Special Meeting and cast the votes for a Registered Shareholder. **The persons named in the accompanying form of proxy (the “Proxy”) are officers and/or directors of the Corporation. If you are a Registered Shareholder, you have the right to appoint a person or Corporation other than the persons designated in the Proxy, who need not be a Shareholder to attend and act on your behalf at the Special Meeting. You may do so either by inserting the name of that other person or Corporation in the blank space provided in the Proxy or by completing and delivering another suitable form of proxy.**

A proxy must be in writing and must be executed by you as Registered Shareholder, or by your attorney authorized in writing, or if the Registered Shareholder is a corporation or other legal entity, under its corporate seal or by an officer or attorney thereof duly authorized.

**If you wish to vote for a resolution, tick in the relevant box in the Proxy marked “FOR”. If you wish to vote against a particular resolution, tick in the relevant box in the Proxy marked “AGAINST”. The persons named in the Proxy will vote the Shares represented thereby in accordance with your instructions on any ballot that may be called. If you specify a choice with respect to any matter to be acted upon, your Shares will be voted accordingly. Failure to tick a box in the Proxy will entitle your proxy to cast your vote at his/her discretion. Your proxy will also be entitled to vote at his/her discretion on any resolution properly put to the meeting other than those referred to in the notice convening the Special Meeting.**

### Voting by Proxy Holder

Registered Shareholders may wish to vote by proxy whether or not they are able to attend the Special Meeting in person.

Registered Shareholders who received this Circular and other accompanying meeting materials from the Corporation’s branch registrar in Hong Kong, and who elect to submit a proxy may do so by completing, dating and signing the accompanying Proxy and returning it to the Corporation’s branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, ensuring that the Proxy is received during regular business hours at least 48 hours, excluding Saturdays, Sundays and public holidays in Hong Kong, before the Special Meeting (i.e. 10:30 a.m. on October 29,



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## LETTER FROM THE BOARD

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2018 (Hong Kong time)), or any adjournment thereof, at which the Proxy is to be used.

Registered Shareholders who received this Circular and other accompanying meeting materials from the Corporation's principal share registrar in Canada, and who elect to submit a proxy do so by completing, dating and signing the accompanying Proxy and returning it to the Corporation's principal share registrar in Canada, being Alliance Trust Corporation at Suite 1010, 407 – 2nd Street SW, Calgary, Alberta, Canada T2P 2Y3 ensuring that the Proxy is received during regular business hours at least 48 hours, excluding Saturdays, Sundays and public holidays in Calgary, before the Special Meeting (i.e. 8:30 p.m. on October 26, 2018 (Calgary time)), or any adjournment thereof, at which the Proxy is to be used.

### PROXY INFORMATION FOR BENEFICIAL SHAREHOLDERS

**The information set forth in this section is of significant importance to many Shareholders, as a substantial number of Shareholders do not hold Shares in their own name.** Beneficial Shareholders should note that the only proxies that can be recognized and acted upon at the Meeting are those deposited by Registered Shareholders.

Only Registered Shareholders or the persons they appoint as their proxies are permitted to vote at the Special Meeting. Many Shareholders of the Corporation are Beneficial Shareholders because the Shares they own are not registered in their own names, but are instead registered in the name of the brokerage firm, bank, trust Corporation or clearing house through which they purchased the Shares. Shares beneficially owned by a Beneficial Shareholder are registered either: (i) in the name of an intermediary (an "Intermediary") that the Beneficial Shareholder deals with in respect of the shares of the Corporation (Intermediaries include, among others, banks, trust companies, securities dealers, securities brokers and trustees or administrators of self-administered RRSPs, RRIFFs, RESPs, TFSAs and similar plans); or (ii) in the name of a clearing agency (such as The Canadian Depository for Securities Limited or HKSCC Nominees Limited) of which the Intermediary is a participant. In accordance with applicable securities law requirements, the Corporation will have distributed copies of the notice, the Circular, and form of proxy (collectively, the "Meeting Materials") to the clearing agencies and Intermediaries for distribution to Beneficial Shareholders

Intermediaries are required to forward the Meeting Materials to Beneficial Shareholders unless a Beneficial Shareholder has waived the right to receive them. Intermediaries often use service companies to forward the Meeting Materials to Beneficial Shareholders. Every intermediary or service Corporation has its own mailing procedures and provides its own return instructions to clients. Please note that the Corporation's management does not intend to pay for Intermediaries to forward the Meeting Materials and voting instruction request forms to those Beneficial Shareholders who have objected to their Intermediary disclosing ownership information about them pursuant to Canadian securities legislation ("Objecting Beneficial Shareholders"). Consequently, if you are an Objecting Beneficial Shareholder, you will not receive these materials unless the Intermediary holding Shares on your account assumes the cost of delivery.

You should carefully follow the instructions of your broker or intermediary in order to ensure that your Shares are voted at the Special Meeting. The form of proxy supplied to you by your broker will be similar to the Proxy provided by the Corporation to its Registered Shareholders. However, its purpose is limited to instructing the intermediary on how to vote on your behalf.

In Canada, most brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions Inc. ("Broadridge"). Broadridge mails a voting instruction form in

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## LETTER FROM THE BOARD

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lieu of a Proxy provided by the Corporation. The voting instruction form will name the same persons as the Corporation's Proxy to represent you at the Special Meeting. You have the right to appoint a person (who need not be a Beneficial Shareholder of the Corporation), other than the persons designated in the voting instruction form, to represent you at the Special Meeting. To exercise this right, you should insert the name of the desired representative in the blank space provided in the voting instruction form. The completed voting instruction form must then be returned to Broadridge by mail or facsimile or given to Broadridge by phone or over the internet, in accordance with Broadridge's instructions. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Shares to be represented at the Special Meeting. If you receive a voting instruction form from Broadridge, you cannot use it to vote Shares directly at the Special Meeting. The voting instruction form must be completed and returned to Broadridge, in accordance with its instructions, well in advance of the Special Meeting in order to have the Shares voted.

Although as a Beneficial Shareholder you may not be recognized directly at the Special Meeting for the purposes of voting Shares registered in the name of your broker, you, or a person designated by you, may attend at the Special Meeting as proxy holder for your broker and vote your Shares in that capacity. If you wish to attend at the Special Meeting, and indirectly vote your Shares as proxy holder for your broker, or have a person designated by you do so, you should enter your own name, or the name of the person you wish to designate, in the blank space on the voting instruction form provided to you and return the same to your broker in accordance with the instructions provided by such broker, well in advance of the Special Meeting. Alternatively, you can request in writing that your broker send you a legal proxy which would enable you, or a person designated by you, to attend at the Special Meeting and vote your Shares.

### REVOCAION OF PROXY

A Shareholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. In addition to revocation in any other manner permitted by law, a Shareholder who has given a proxy may revoke it by:

- a. executing a proxy bearing a later date or by executing a valid notice of revocation, either of the foregoing to be executed by the Shareholder or such person's authorized attorney in writing or, if such person is a corporation, under its corporate seal by an officer or attorney duly authorized, and by delivering the proxy bearing a later date to the Corporation's principal share registrar in Canada, being Alliance Trust Corporation at Suite 1010, 407 – 2nd Street SW, Calgary, Alberta, Canada T2P 2Y3, or the Corporation's branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as applicable, or at the address of the registered office of the Corporation at 4000, 421 – 7th Avenue S.W., Calgary, Alberta, Canada T2P 4K9, during regular business hours at least 48 hours, excluding Saturdays, Sundays and public holidays in Calgary and Hong Kong, before the Special Meeting (i.e. 8:30 p.m. on October 26, 2018 (Calgary time) or 10:30 a.m. on October 29, 2018 (Hong Kong time), as the case may be), or any adjournment thereof, at which the proxy is to be used, or to the chairman of the Special Meeting on the day of the Meeting or any reconvening thereof, or in any other manner provided by law; or
- b. personally attending the Special Meeting and voting such person's Shares at that meeting.

A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

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## **LETTER FROM THE BOARD**

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### **VOTING BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Corporation will announce the results of the poll in the manner prescribed in Rule 13.39(5) of the Listing Rules.

### **COUNTING THE VOTES**

The Corporation's principal share registrar, Alliance Trust Corporation, and the Corporation's branch share registrar, Computershare Hong Kong Investor Services Limited, will count and tabulate the proxies for Shares. This is done independently of the Corporation to preserve confidentiality in the voting process. Proxies are referred to the Corporation only in cases where a Shareholder clearly intends to communicate with management or when it is necessary to do so to meet the requirements of applicable law.

### **INTERESTS OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

Other than as disclosed in this Circular, the management of the Corporation is unaware of any material interest of any Director or nominee for Director, or executive officer or anyone who has held office as such since the beginning of the Corporation's last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the Special Meeting.

### **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF AND VOTES NECESSARY TO PASS RESOLUTIONS**

The authorized capital of the Corporation consists of an unlimited number of shares designated as Class "A" Common Voting Shares (the "Shares"), Class "B" Common Voting Shares, Class "C" Common Non-Voting Shares, Class "D" Common Non-Voting Shares, Class "E" Common Non-Voting Shares, Class "F" Common Non-Voting Shares, Class "G" Preferred Non-Voting Shares and Class "H" Preferred Non-Voting Shares.

As at the Latest Practicable Date, there were 6,013,596,172 Class "A" Common Voting Shares of the Corporation issued and outstanding and no shares of any of the other classes issued or outstanding. Each Class "A" Common Voting Share carries the right to one vote at any meeting of the Shareholders of the Corporation. Each Class "B" Common Voting Share also carries the right to one vote (but none are issued or outstanding).

The holders of Class "C" Common Non-Voting Shares, Class "D" Common Non-Voting Shares, Class "E" Common Non-Voting Shares, Class "F" Common Non-Voting Shares, Class "G" Preferred Non-Voting Shares and Class "H" Preferred Non-Voting Shares do not carry the right to vote at any meeting of the Shareholders of the Corporation (subject to the provisions of the Business Corporations Act (Alberta)).

By-Law No. 1 of the Corporation provides that if holders of five percent (5%) of the shares entitled to vote, are present in person or are represented by proxy, a quorum for the purposes of conducting a shareholders' meeting is constituted.

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## LETTER FROM THE BOARD

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To the best of the knowledge of the Directors and officers of the Corporation and as at the Latest Practicable Date, the only persons, firms, or corporations, owning of record or beneficially, controlling or directing, directly or indirectly, 10% or more of the issued and outstanding Shares are Mr. Kwok Ping Sun, who directly or indirectly beneficially owns or controls 1,682,407,000 Shares, representing approximately 27.98% of the issued and outstanding Shares, and HKSCC Nominees Limited, which holds 5,188,388,436 Shares, representing approximately 86.28% of the issued and outstanding Shares. HKSCC Nominees Limited is a subsidiary of the Hong Kong Exchanges and Clearing Limited (“HKEx”) and its principal business is to act as nominee on behalf of other corporate or individual shareholders. All shares of Hong Kong listed companies, which are deposited into HKEx’s Central Clearing and Settlement System (CCASS), are registered in the name of HKSCC Nominees Limited.

References to “issued and outstanding” securities and similar expressions in this Circular are to outstanding security including Shares) of the Corporation, being those securities issued by Corporation and held by its investors (and excluding any securities issued and then repurchased, but canceled, by the Corporation). As at the Latest Practicable Date, there are no securities of Corporation issued but not outstanding.

### RECORD DATE

The record date for the Special Meeting has been fixed at 4:30 p.m. on October 4, 2018 (Hong Kong time) and 2:30 a.m. on October 4, 2018 (Calgary time), as the case may be (the “Record Date”). Only Shareholders as at the Record Date are entitled to receive notice of the Special Meeting. Shareholders on record will be entitled to vote their Shares held by them as at the Record Date, unless any such Shareholder properly transfers the Shares after the Record Date and the transferee of those Shares, having produced properly endorsed certificates evidencing such Shares or having otherwise established ownership of such Shares, demands, at least ten (10) days before the Special Meeting, that the transferee’s name be included in the list of Shareholders entitled to vote at the Special Meeting, in which case such transferee shall be entitled to vote such Shares at the Special Meeting. To ensure that there is no risk that any of the Shares will be voted twice, the transferee must provide written evidence to the Corporation including, without limitation, providing properly endorsed certificates evidencing the transfer of such Shares or having otherwise established ownership of such Shares, written evidence of the identification of the relevant transferor and written evidence that the relevant transferor has not and will not exercise their right to vote either by proxy or in person at the Special Meeting.

The Corporation may refuse the demand by a transferee to be included in the list of Shareholders entitled to vote at the Special Meeting if the transferee cannot demonstrate to the Corporation with sufficient certainty that the relevant Shares have not already been voted by proxy or will be voted by the relevant transferor at the Special Meeting.

### DIRECTORS

As at the date of this Circular, the Board consists of Mr. Kwok Ping Sun and Ms. Gloria Pui Yun Ho as executive directors; Mr. Michael John Hibberd, Mr. Hong Luo, Ms. Linna Liu and Ms. Xijuan Jiang as non-executive directors; and Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He as independent non-executive Directors.

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## **LETTER FROM THE BOARD**

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### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Other than as disclosed in this Circular, to best of the knowledge of the Corporation's management, none of the Corporation's Directors or executive officers, nor any person who beneficially owns directly or indirectly or exercises control or direction over securities carrying more than 10% of the voting rights attaching to the shares in the capital of the Corporation, nor any known associate or affiliate of these persons had any material interest, direct or indirect in any transaction since the commencement of the Corporation's most recently completed financial year which has materially affected the Corporation, or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

### **AUDITORS**

The auditors of the Corporation is PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP has acted as the auditors of the Corporation since October 18, 2017.

### **GENERAL**

Your attention is also drawn to the letter from the Special Board Committee, the letter from Lego Corporate Finance and the additional information set out in appendix to this Circular and the notice of SGM.

Additional information relating to the Corporation is available on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).

Financial information is provided for in our financial statements and management's discussion and analysis for the year ended December 31, 2017. Documents affecting the rights of security holders, along with other information relating to the Corporation, may be found on the Corporation's website at [www.sunshineoilsands.com](http://www.sunshineoilsands.com).

### **RESPONSIBILITY STATEMENT**

This Circular, for which the Directors of the Corporation collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Corporation. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

### **DIRECTORS' APPROVAL**

The contents and the dispatch of this Circular have been approved by the Board.

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**LETTER FROM THE BOARD**

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BY ORDER OF THE BOARD OF DIRECTORS  
SUNSHINE OILSANDS LTD.

**Kwok Ping Sun**  
*Executive Chairman*

Calgary, Alberta, October 5, 2018

Hong Kong, October 5, 2018



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)

October 5, 2018

*To the Independent Shareholders*

Dear Sir / Madam,

**CONNECTED TRANSACTION - PROPOSED AMENDMENT TO  
THE JOINT OPERATING AGREEMENT AND OTHER SUPPORTING  
AGREEMENTS GOVERNING THE MUSKWA AND GODIN AREAS**

We refer to the circular dated October 5, 2018 issued by the Corporation to its Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

We, being independent non-executive Directors, have been appointed as members of the Special Board Committee to advise the Independent Shareholders (Shareholders except Mr. Kwok Ping Sun, his associates and Ms. Xijuan Jiang) as to whether, in our opinion, the Proposed Amendment and the transactions contemplated under the new joint venture arrangements are in the interests of the Corporation and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Proposed Amendment are set out in the “letter from the Board” contained in the Circular. None of the members of the Special Board Committee have any direct or indirect interest in the Proposed Amendment and the joint venture.

Lego Corporate Finance has been appointed to advise the Special Board Committee and the Independent Shareholders in relation to the Proposed Amendment. We wish to draw your attention to the letter from Lego Corporate Finance to the Special Board Committee and the Independent Shareholders which contains its advice in respect of the Proposed Amendment and as set out in the Circular. Your attention is also drawn to the general information set out in the Circular.

*\* For identification purposes only*

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## LETTER FROM THE SPECIAL BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by Lego Corporate Finance and its conclusion and advice, we are of the opinion that the Proposed Amendment and the transactions contemplated under the new joint venture arrangement are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Corporation and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution thereunder to be proposed in the Special Meeting approving the Proposed Amendment and the transactions contemplated.

Yours faithfully,  
For and on behalf of the  
Special Board Committee

**Joanne Yan    Raymond Shengti Fong    Yi He (David)    Jeff Jingfeng Liu**

*Independent Non-Executive Directors*



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## LETTER FROM LEGO CORPORATE FINANCE

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*The following is the full text of the letter of advice from Lego Corporate Finance Limited, the independent financial adviser to the Special Board Committee and the Independent Shareholders (Shareholders excluding Mr. Sun, his associates and Ms. Jiang), which has been prepared for the purpose of inclusion in this circular, setting out its advice to the Special Board Committee and the Independent Shareholders in respect of the proposed amendment to the Joint Operating Agreement and other supporting agreements governing the Muskwa and Godin areas.*

October 5, 2018

*To the Special Board Committee and the Independent Shareholders*

Dear Sirs or Madams,

### **CONNECTED TRANSACTION PROPOSED AMENDMENT TO THE JOINT OPERATING AGREEMENT AND OTHER SUPPORTING AGREEMENTS GOVERNING THE MUSKWA AND GODIN AREAS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Special Board Committee and the Independent Shareholders in respect of proposed amendment to the joint operating agreement and other supporting agreements governing the Muskwa and Godin areas (the “**Proposed Amendment**”), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Corporation to the Shareholders dated October 5, 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On October 21, 2013, the Corporation entered into the Agreements with Renegy with respect to the Leases. Excluded from the Agreements are all of the Corporation’s oilsands right within the carbonate formations contained with the Leases.

According to the announcement dated July 27, 2018 issued by the Corporation, the Affiliate and Nobao has conditionally acquired Changjiang’s interest in Renegy. Ms. Jiang, non-executive Director of the Corporation, is the vice president of Nobao. The Affiliate and Nobao has received the Board’s conditional approval for this acquisition and has requested the Proposed Amendment with an aim to simplify the working relationship between contracting parties to the Agreements and to incentivize Renegy as operator to spend significant capital to proceed with an enhanced oilsands recovery scheme in the Muskwa and Godin areas.

Accordingly, the Affiliate and Nobao are associates of Mr. Sun and Ms. Jiang and are connected persons of the Corporation, the Proposed Amendment constitutes a connected transaction to the Corporation under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rule exceeds 5%, the Proposed Amendment is subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, save for Mr. Sun, his associates and Ms. Jiang, no other Shareholders is involved in or interested in the Proposed Amendment. As such, no shareholder other than Mr. Sun, his associates and Ms. Jiang is required to abstain from voting for the resolution to approve the Proposed Amendment and the transactions contemplated thereunder at the Special Meeting.

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## LETTER FROM LEGO CORPORATE FINANCE

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The Special Board Committee, comprising all the independent non-executive Directors, namely Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He, has been established to advise the Independent Shareholders as to whether the Proposed Amendment and the transaction contemplated under the new joint venture arrangement are fair and reasonable so far as the Corporation and Independent Shareholders are concerned and are in the interests of the Corporation and Shareholders as a whole, and to advise the Independent Shareholders as to how to vote in respect of the resolution to be proposed at the Special Meeting to approve the Proposed Amendment and the transactions contemplated thereunder. As the independent financial adviser, our role is to give an independent opinion to the Independent Shareholders.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Corporation that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Corporation. Accordingly, we are qualified to give independent advice in respect of the proposed amendment to the joint operating agreement and other supporting agreements and the transactions contemplated thereunder.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on (i) the statements, information, opinions and representations contained or referred to in the Circular; (ii) the information provided by the Corporation; (iii) the opinions expressed by and the representations of the Directors and the management of the Corporation; and (iv) our review of the relevant public information. We have assumed that all the statements and information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Corporation. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continue to be so until the date of the Special Meeting.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the statements and information provided, representations made or opinion expressed by the Directors and the management of the Group corporation or Renergy, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Corporation, Renergy or any of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation, we have taken into account the principal factors and reasons:

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## LETTER FROM LEGO CORPORATE FINANCE

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### Background of and reasons for the Proposed Amendment

#### *Information on the Group*

The Group is principally engaged in the exploration and development of oil properties for the future production of bitumen in the Athabasca oilsands region in Alberta, Canada.

The following table is a summary of the consolidated financial information of the Group for the six months ended 30 June 2017 and 2018 and the financial years ended 31 December 2016 and 2017, as extracted from the interim report of the Corporation for the six months ended 30 June 2018 (the “**2018 Interim Report**”) and the annual report of the Corporation for the year ended 31 December 2017 (the “**2017 Annual Report**”).

	For the year ended		For the six months ended	
	31 December		30 June	
	2016	2017	2017	2018
	<i>CDN\$ '000</i>	<i>CDN\$ '000</i>	<i>CDN\$ '000</i>	<i>CDN\$ '000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Revenue from petroleum sales, net of royalties</b>	-	<b>33,634</b>	<b>11,806</b>	<b>20,247</b>
<b>Net loss for the year/period attributable to equity holders of the Corporation</b>	<b>73,310</b>	<b>281,852</b>	<b>40,648</b>	<b>63,978</b>

As illustrated in the above table, the revenue of the Group amounted to approximately CDN\$33.6 million for the year ended 31 December 2017 whilst the revenue of the Group for the year ended 31 December 2016 was nil as the West Ells Phase 1 commenced commercial production of petroleum only since 1 March 2017. The Group recorded recurring net loss (excluding impairment) of approximately CDN\$86.9 million for the year ended 31 December 2017, representing an increase of approximately 18.6% as compared to that of approximately CDN\$73.3 million for the year ended 31 December 2016. Such increase was mainly due to the oil price decrease for the year ended 31 December 2017.

The revenue of the Group amounted to approximately CDN\$20.2 million for the six months ended 30 June 2018, representing an increase of approximately 71.2% as compared to that of approximately CDN\$11.8 million for the six months ended 30 June 2017. The net loss of the Group amounted to approximately CDN\$64.0 million for the six months ended 30 June 2018, an increase of approximately 57.6% compared to that of approximately CDN\$40.6 million for the six months ended 30 June 2017. The increase in net loss of the Group was mainly due to the lower oil price and the 10-day factory turnaround in May 2018.

According to the 2017 Annual Report and the 2018 Interim Report, the Corporation’s ability to continue as a going concern is dependent on continuing operation and development in West Ells, marketing bitumen blends at favourable prices, achieving profitable operations. The ability to refinance current debt and access immediate additional financing and the Corporation sees potential significant benefits resulting from re-activation of the Muskwa and Godin Area activities under a revised joint venture with a new owner of the joint venture operator.

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## LETTER FROM LEGO CORPORATE FINANCE

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### *Information on Renergy*

According to the Letter from the Board, Renergy is the joint venture partner under the Agreements involving the Corporation's Muskwa and Godin area oilsands leases. Pursuant to the Agreements, Renergy will operate the assets as the Operator.

### *Reasons for and benefits of the Proposed Amendment to the Terms of the Agreements*

The Corporation is focused on the development of its significant holdings of approximately one million acres oilsands and petroleum and natural gas leases in the Athabasca oilsands region and has one business and geographical segment only. According to the 2018 Interim Report, other than the West Ells project, the Corporation has no other active ongoing project that are generating revenue for the six months ended 30 June 2018. Therefore, the Corporation considers that the re-activation of the project in Muskwa and Godin area will improve the Corporation's growth and profitability and deliver the long term benefits to the Corporation.

The Agreements was first signed in October 2013. According to the Letter from the Board, we understand that the application regarding the construction and operation of a single well thermal pilot project at the Muskwa area was submitted in July 2014 and approved on January 26, 2015. Nevertheless, as at the Latest Practicable Date, there is no production from Muskwa wells and no active planning or development activities occurring due to insufficient spending on enhanced recovery technology programs.

The Corporation considers that the Proposed Amendment provides a reasonable incentive for Renergy to expend funds to establish economic oil production that is subject to lower oil production royalties. According to the Letter from the Board, based on the Mines and Minerals Act, Oil Sands Royalty Regulation, 2009 (Alberta Regulation 223/2008), the project in Muskwa/ Godin is within the designated Oil Sands Area of Alberta, and therefore this project will be approvable for lower royalty rates accordingly. The reduced royalty rates offered to wells in qualifying oilsands projects where they enjoy 1%-9% royalties payable when the project is operating in pre-payout condition. Only when the project is in a post-payout state do royalties begin to rise. This compares to royalty rates for conventional oil production rising as high as 40% from wells "not" in recognized and approved oilsands projects. This difference in royalty expense provides for a quicker return of capital for approved oilsands projects to reward the more costly investment required by oilsands projects. Renergy will be the operator and will be the one to make significant capital spending for the next 5 years with the aim to turn Muskwa and Godin projects into an actively producing project for Sunshine with an initial target of 500 barrels per day production.

As per the Proposed Amendment, Renergy will be responsible for all the expenditures in the Muskwa and Godin areas until 20 October 2023 with no commitment cap and Nobao (controlled by Mr Sun) will not charge the Corporation for the usage of its technology in the Muskwa and Godin areas.

Moreover, the terms of Proposed Amendment contained proper terms for distributions (in the Working Interest clauses), penalty (if Renergy cannot meet the production level of 500 barrels per day in any 20 consecutive days period before October 20, 2023, Renergy's 60% Working Interest will be forfeited) and termination clauses. Save as the Proposed Amendment, all of the terms of the original set of Agreements and its supporting agreements, subject to conforming edits resulting from the proposed amendment, (which were executed between Sunshine and Renergy which at that time was an independent external party) will be adopted.

According to the Letter from the Board, the Directors believe that Muskwa and Godin project is a commercially attractive and viable project as it is relatively close to delivery locations and the oil

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## LETTER FROM LEGO CORPORATE FINANCE

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produced can be marketed without adding high cost diluents. The Corporation is expected to benefit from the lower royalty regime, which results in increased net returns on production.

According to the Letter from the Board, under the covenants of the Senior Notes which limit capital spending into projects other than the West Ells project until the daily production of West Ells is at 10,000 barrels, the Corporation is not allowed to invest existing cash resources into Muskwa. The Proposed Amendment in turn enables the Corporation to develop and expand its current business neither investing additional funds or resources nor breaching the covenants of the Senior Notes.

Based on the above, we concur with the Directors that the Proposed Amendment are (i) on normal commercial terms and in the ordinary and usual course of business of the Group; (ii) fair and reasonable; and (iii) in the interests of the Corporation and its Independent Shareholders as a whole.

### Principal terms of the Agreements and the Proposed Amendment

We have reviewed the original Agreements and the Proposed Amendment and noted the below amendments:

	<b>Original Agreements</b>	<b>Proposed Amendment</b>
(1) Outstanding amount from Renergy	Not applicable.	Any outstanding amounts payable from Renergy to Sunshine will be made from Renergy's future production entitlements revenues.
(2) Outside Date	<p>The Outside Date of the Agreements was set to be the earlier of: (i) three years from the receipt of all required regulatory approvals in respect of Phase One (<i>Note 1</i>) (i.e. 26 January 2015); and (ii) six years from the date of the Agreement (i.e. 20 October 2013); provided that such date shall be extended by the duration of any delay in Phase One operations as a result of any events of Force Majeure provided that Changjiang uses all commercially reasonable efforts and diligence to remedy or overcome such Force Majeure or the effects thereof.</p> <p>Changjiang was also covenanted to fund 100% of all costs, expenditures, expenses and permitted charges associated with the project but up to a commitment cap of CDN\$250,000,000 (the "<b>Commitment Cap</b>")</p>	<p>The Outside Date of the Agreements is to be extended from October 20, 2019 to October 20, 2023. Renergy will be responsible for all the expenditures in the Muskwa and Godin areas until October 20, 2023. There will be no capital expenditures targets or Commitment Caps specified in the Agreements.</p>
(3) Working Interests	<p>Renergy and the Corporation have 50% Working Interests each; and Renergy's Working Interest is limited to clastics portions of the oilsands leases and is subject to the Working Interest clawback conditions.</p>	<p>Working Interests to be 60% Renergy and 40% Sunshine in all oilsands formations in the oilsands leases and in all conventional gas lease in the Muskwa and Godin areas.</p>

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**LETTER FROM LEGO CORPORATE FINANCE**

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	<b>Original Agreements</b>	<b>Proposed Amendment</b>
(4)	<p>Payment of annual oilsands and conventional lease amounts</p> <p>The Corporation was responsible for 25% of the total lease payments and Renergy was responsible for 75%.</p>	<p>Both the Corporation and Renergy shall each pay annual oilsands and conventional lease amounts in proportion to their respective working interests. Save as the annual lease payment in proportion to the respective working interests ratio (i.e. CDN\$142,401 for Sunshine's portion, Sunshine has no obligation to pay any other expenditure or has any other liability.</p>
(5)	<p>Penalty clause</p> <p>There is no forfeiture on Working Interest of Renergy.</p> <p>However, if the Commitment Target is not reached by the Outside Date, the Working Interest of Changjiang for Phase One at the Outside Date shall be deemed to be immediately reduced to one half of the greater of:</p> <p>(1) the sum of monies contributed by Changjiang under the Agreements divided by CDN\$250,000,000, expressed as a percentage figure; or</p> <p>(2) the average daily production from the lands under the leases over a 20 consecutive days period divided by 5,000 barrels per day expressed as a percentage figure. (the "<b>Commitment Target</b>")</p>	<p>If Renergy fails to achieve a production level of 500 barrels per day for any consecutive 20-day period (the "<b>Required Production Level</b>") on or prior to October 20, 2023, Renergy's 60% Working Interest will be forfeited on October 20, 2023.</p>
(6)	<p>Use of technologies</p> <p>Changjiang shall procure and cause a third party services provider of the TechCo Technology (<i>Note 2</i>). Changjiang and the Corporation are responsible to pay for the joint account in respect of certain services, equipment or suppliers pursuant to work orders or otherwise in accordance with the TechCo Services agreement to be entered with the third party.</p>	<p>Nobao will bring in technologies and Nobao's technologies may be used throughout the Muskwa and Godin areas without compensation to Nobao but the technology ownership rights remain with Nobao.</p>
(7)	<p>Personnel</p> <p>Not applicable.</p>	<p>Sunshine's management is to ensure an orderly transition with the new owners of Renergy, however, if long term roles are being filled by Sunshine personnel, services contracts shall be negotiated.</p>

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## LETTER FROM LEGO CORPORATE FINANCE

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*Note 1: Phase 1 means that the first phase, commencing on 20 October 2013, and encompasses all operations intended to achieve the threshold described in Commitment Target and conducted prior to the earlier of (1) achieving the Commitment Target and (2) Outside Date.*

*Note 2: TechCo Technology means that certain technology with respect to hot-flow solutions applied to well bores comprised of the composite heat carrier generator for multi-thermal fluid foam stimulation or displacement to achieve enhanced oil recovery utilizing the high pressure burning spray mechanism of a rocket engine to burn or inject fuel (diesel or natural gas), together with the compression of air and water, in the combustion chamber.*

With reference to the Corporation's announcement dated 21 October 2013, Renegy initially agreed to fund 100% of the initial joint operations conducted on the lands only up to the Commitment Cap, which funding shall be deployed at the discretion of Renegy, until Renegy met the Commitment Target.

According to the Proposed Amendment, there will be no capital expenditures targets or Commitment Caps specified in the Agreements regarding Renegy's investment on the Muskwa and Godin areas. The Corporation will thus not be responsible to any investment as Renegy will fully fund the operation as mentioned in the Proposed Amendment. Given that the Outside Date will also be updated from 20 October 2019 to 20 October 2023, the Corporation will enjoy a development period of four more years without incurring any capital expenditure in the Muskwa and Godin areas.

In amendment (3) of the Proposed Amendment, the Working Interests in all oilsands formations in the oilsands leases and in all conventional gas lease in the Muskwa and Godin areas will be redistributed as 60% to Renegy and 40% to the Corporation. As discussed with the management of the Group, we concur with the Directors' view that such redistribution of Working Interest will provide Renegy a greater incentive to invest in the Muskwa and Godin areas as Renegy will be entitled to 10% more Working Interests as compared to the original Agreements. Given that the Corporation does not need to make any further capital expenditure, the Board considers such redistribution of Working Interests is fair and reasonable. We have further discussed the financial impact with the Corporation and understand that the annual revenue generated from the project in Muskwa and Godin areas is expected to be approximately CDN\$16.1 million (assuming daily production of 500 barrels). We are advised by the Corporation that it was not able to find another joint venture partner who is willing to fully bear the significant amount of capital expenditure for the Muskwa and Godin project reactivation and development. The Directors are of the view that, despite the Corporation's entitlement to higher Working Interests in the original Joint Operating Agreement, the Corporation has never received any revenue from the project, and has been paying Renegy's portion of annual leases for years to retain the oilsand leases. Having the Muskwa and Godin project area idled for 5 years and the uncertainty of the commencement of the project, the Corporation could not ascertain the recovery of the earlier investment made. By redistribution of Working Interests, Renegy will be more incentivized to spend sufficient capital on the project and restart production, and the Corporation will be able to receive production revenue without spending any further capital expenditure and has an additional source of cash flow to fund its daily operations. Having considered the above, we concur with the Directors' view that such redistribution of Working Interests is fair and reasonable and in the interests of the Company and its shareholders as a whole.

According to the Letter from the Board, the annual rentals payable for the oilsands leases in the Muskwa/Godin areas are CDN\$356,003, CDN\$325,539 for Muskwa and CDN\$30,464 for Godin. Crown rentals are calculated at a fixed rate of CDN\$3.50 per hectare and the Muskwa lease area is 93,011 hectares with Godin at 8,704 hectares. In spite of Renegy's obligation to pay its share of these lease payments under the original Agreements, it failed to do so and the Corporation has been paying, without reimbursement from Renegy, the full amount of the lease rentals to the Alberta Crown in order to retain the leases as non-payment of the full amount of the lease rentals would result in the lease defaulting to the Crown. As at the Latest Practicable Date, the outstanding amount due from Renegy include unpaid lease payments made on its behalf and unpaid royalties and unpaid service fees and costs, which are

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## LETTER FROM LEGO CORPORATE FINANCE

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approximately CDN\$1,520,156.47, CDN\$50,354.76 and CDN\$120,098.79, respectively (total: CDN\$1,690,610.02). In amendment (1) of the Proposed Amendment, any outstanding amounts payable from Renergy to Sunshine will be made from Renergy's future production entitlements revenues. We discussed with the Directors and understood that despite the Corporation sent the payment reminder in connection with the amount due from Renergy, Renergy had neither paid nor disputed on the invoices issued by the Corporation regarding the rentals payable for the Muskwa and Godin project. Also there is no indication or intention noted by the Corporation that Renergy will repay such amount before the completion of acquisition by the Affiliate and Nobao. Under the Proposed Amendment, the amount defaulted by Renergy can be gradually offset by the Renergy's oil production entitlement after the reactivation of Muskwa and Godin areas. Without making the Proposed Amendment, we were advised by the Directors that the chance of commencing the project in the Muskwa and Godin areas is remote within the foreseeable future. As mentioned above, we are advised by the Directors that the expected annual revenue of Muskwa project is expected to be approximately CDN\$16.1 million (assuming daily production achieves 500 barrels), and Renergy will be entitled to 60% Working Interests of such amount, which is approximately CDN\$9.7 million per year. Considering (i) the outstanding amounts due from Renergy is approximately CDN\$1.7 million in total as at Latest Practicable Date and the Directors foresees such amount is non-recoverable; and (ii) the entitlement for the annual revenue of Renergy per year is approximately 5.7 times of the Renergy's outstanding amounts payable to the Corporation, we concur with the Directors that the reactivation of the project will enable the Corporation from recovery of the outstanding amounts from Renergy's future production entitlements revenues and thus is beneficial to the Corporation and amendment (1) of the Proposed Amendment is fair and reasonable and on normal commercial terms and in the interests of the Corporation and its shareholders as a whole.

We were also advised by the management of the Corporation that Renergy has CDN\$3.6 million on deposit with the Alberta Energy Regulator under the Licensee Liability Program. Any restart of production as Muskwa will see gradual cash refund of the deposit to Renergy. Hence, the Corporation sees this as an additional economic incentive for Renergy to achieve production at Muskwa and considers that the possibility of no revenue for repayment to Sunshine is low.

In addition, Renergy will be under control of Mr. Sun and his affiliate upon completion of the acquisition of Renergy. The Directors consider that it is beneficial to the Corporation to have a co-owner of a project to pay its share of lease rentals on time and to generally meeting their financial responsibilities to the project without placing a burden on the Corporation to make any payments beyond those payments agreed to in the documents governing the joint venture. Given that Mr. Sun is the substantial shareholder and executive chairman of the Corporation, Renergy will be more active in pursuing the Muskwa and Godin project as Mr. Sun has more incentive to maximize the project's long term interests.

The Proposed Amendment also imposes a penalty to Renergy which in turn protects the Corporation. As per amendment (5) of the Proposed Amendment, Renergy, who acts as the Operator of the Agreements, cannot achieve the Required Production Level (500 barrels per day for any consecutive 20-day period) on or prior to the Outside Date, Renergy's Working Interest will be forfeited on the Outside Date. The forfeiture will on the one hand incentivize Renergy in achieving a stable production level and on the other hand impose a penalty in case Renergy fails to do so. With an aim of preventing the current situation that Renergy did not act proactively in planning and developing the Muskwa and Godin areas, such a forfeiture will also give better comfort to the Corporation by restricting Renergy's Working Interest for not achieving the Required Production Level. The Required Production Level is much lower than the point (2) of the Commitment Target in the original Agreement because the Directors consider that Renergy will be more motivated with the lowered target to reactivate the operation of the project.

According to the Proposed Amendment, Nobao will also bring in technologies and Nobao's technologies may be used throughout the Muskwa and Godin areas without compensation. As advised



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## LETTER FROM LEGO CORPORATE FINANCE

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by the management of the Corporation, the key technology Nobao can bring in to the Corporation is the ground source heat pump system (the “GSHP System”) to facilitate production of petroleum. GSHP System uses ground water and river water as carrier of cold and heat energy and then circulate between the heat pump units through the heat exchange pipe buried in the soil, whilst the traditional heat pump system uses air as the conditioning medium. As advised by the management of the Corporation and our desktop research, we understand that the heat source temperature of the geothermal under GSHP System is relatively stable throughout the year. It is higher in winter and lower in summer than the ambient temperature and thus enables GSHP System to be 30% to 50% more efficient than traditional air source heat pump system so as to enhance the oil production at a lower cost. Moreover, the GSHP System has no carbon dioxide emission, no noise and vibration and thus is more environmentally friendly.

In amendment (4) of the Proposed Amendment, since the lease amounts commitment is redistributed based on the Working Interests, the annual total lease payment to be borne by the Corporation is then increased from 25% to 40%, the amount of annual lease payments which the Corporation will be responsible for will be increased from approximately CDN\$89,000 to approximately CDN\$142,401. We compared the additional amount of approximately CDN\$53,401 to be borne by the Corporation to the financial information of the Group with reference to the 2017 Annual Report and considered such amount is immaterial to the Group’s financial performance, given that the additional annual rentals payable only accounts for approximately 3.81% of the lease rentals commitment for 2018 of approximately CDN\$1,403,000 and approximately 0.04% of the total expenses of approximately CDN\$120,496,000 for the year ended 31 December 2017. Considering (i) the Corporation has been paying 100% of the amount of annual lease payments as Renegy has failed its obligation to pay its share of lease payments; (ii) Renegy’s outstanding amount payable to the Corporation was very unlikely to be repaid and will be made from Renegy’s future production entitlements revenues under the Proposed Amendment; (iii) the annual rentals payable is relatively minimal to the Corporation and can be fully paid off by the Corporation’s revenue per year; and (iv) the additional annual rentals payable is immaterial against the Corporation’s future annual revenue entitlement of Muskwa project, we are of the view that such additional lease amounts payable is fair and reasonable so far as the Corporation and Independent Shareholders are concerned.

### RECOMMENDATIONS

Having considered the principal factors and reasons discussed above, we are of the opinion that the Proposed Amendment and the transaction contemplated under the new joint venture arrangement (i) are fair and reasonable so far as the Corporation and Independent Shareholders are concerned; (ii) are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) are in the interest of the Corporation and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the resolution to be proposed at the Special Meeting to approve the Proposed Amendment and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
**Lego Corporate Finance Limited**  
Gary Mui  
*Chief Executive Officer*

*Mr. Gary Mui is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 19 years of experience in the finance and investment banking industry.*

## 1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable inquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of the Corporation as at the Latest Practicable Date:

Issued and fully paid Shares:	CDN\$
6,013,596,172 Shares	\$ 192,901,131.21 <sup>(1)</sup>

*Note (1) Based on the Bank of Canada's nominal noon exchange rate as at Latest Practicable Date of CDN\$ 1.00 = HK\$ 6.0790*

All the issued Shares in the capital of the Corporation rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital. The Shares to be issued upon exercise of options shall rank *pari passu* in all respects with the Shares then in issue.

Each Share carries the right to one vote at any meeting of the Shareholders. As at the Latest Practicable Date, there are no classes of shares of the Corporation, other than the Shares, entitled to vote at the Special Meeting.

No part of the share capital or any other securities of the Corporation is listed or dealt in on any stock exchange other than the Hong Kong Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Corporation to be listed or dealt in on any other stock exchange.

Save as disclosed in this circular and apart from the options granted and to be granted under the Corporation's Share Option Scheme and the convertible bonds placed on June 25, 2018, the Corporation did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

## 3. DISCLOSURE OF INTERESTS

### (a) Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares or Debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the Shares of the Corporation or its associated corporations (within the meaning of Part XV of the SFO, which were required (a) to be notified to the Corporation and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them had taken or was deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Corporation pursuant to section 352 of the SFO; or (c) to be notified to the Corporation and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

*(i) Director's long position in the Corporation**Common Shares*

<b>Name</b>	<b>Corporation</b>	<b>Nature of Interest</b>	<b>Number of Common Shares Held</b>	<b>Approximate % interest in the Shares</b>
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd.	<i>Direct/Indirect</i>	1,682,407,000	27.98%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	<i>Direct/Indirect</i>	104,774,685	1.74%
Mr. Hong Luo	Sunshine Oilsands Ltd.	<i>N/A</i>	-	-
Mr. Qiping Men <sup>(1)</sup>	Sunshine Oilsands Ltd.	<i>Direct</i>	1,049,541	0.02%
Ms. Gloria Ho	Sunshine Oilsands Ltd.	<i>N/A</i>	-	-
Mr. Raymond Fong	Sunshine Oilsands Ltd.	<i>Direct/Indirect</i>	9,250,621	0.15%
Mr. Yi He	Sunshine Oilsands Ltd.	<i>Direct</i>	1,600,000	0.03%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	<i>N/A</i>	-	-
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	<i>Direct/Indirect</i>	300,000	0.00%
Ms. Linna Liu	Sunshine Oilsands Ltd.	<i>N/A</i>	-	-
Mr. Jingfeng Liu	Sunshine Oilsands Ltd.	<i>Direct</i>	600,000	0.01%

*(ii) Director's Share Options**Stock Options*

<b>Name</b>	<b>Corporation</b>	<b>Nature of Interest</b>	<b>Number of Stock Options held</b>	<b>Approximate % interest in the options</b>
Mr. Kwok Ping Sun <sup>(2)</sup>	Sunshine Oilsands Ltd.	<i>Direct</i>	46,679,000	22.78%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	<i>Direct</i>	46,679,000	22.78%
Mr. Hong Luo	Sunshine Oilsands Ltd.	<i>Direct</i>	23,000,000	11.22%
Mr. Qiping Men <sup>(1)</sup>	Sunshine Oilsands Ltd.	<i>Direct</i>	22,555,556	11.00%
Ms. Gloria Ho	Sunshine Oilsands Ltd.	<i>Direct</i>	20,000,000	9.76%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	<i>Direct</i>	2,500,000	1.32%
Mr. Yi He	Sunshine Oilsands Ltd.	<i>Direct</i>	2,500,000	1.32%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	<i>Direct</i>	2,500,000	1.32%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	<i>Direct</i>	1,000,000	0.49%
Ms. Linna Liu	Sunshine Oilsands Ltd.	<i>N/A</i>	--	--
Mr. Jingfeng Liu	Sunshine Oilsands Ltd.	<i>N/A</i>	--	--

*Notes:*

*(1) Mr. Men resigned as CEO and Executive Director of the Company on May 7, 2018.*

*(2) The above figures had not included the conditional grant of 300,000,000 options to Chairman Sun which is subject to independent shareholders' approval at the forthcoming Special Meeting.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Corporation had interests or short positions in the Shares, underlying shares of the Corporation and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Corporation and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Corporation pursuant to section 352 of the SFO; or (c) to be notified to the Corporation and the Stock Exchange

pursuant to the Model Code.

**(b) Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares**

As at the Latest Practicable Date, according to the register of interests kept by the Corporation under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Corporation, save as disclosed above, none of the substantial shareholders of the Corporation had an interest or short position in the Shares which would require to be disclosed by the Corporation under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 5% or more of the Shares.

As at the Latest Practicable Date, save as disclosed in this Circular, none of the Directors or chief executives of the Corporation had any interest, direct or indirect, in any asset which have been since December 31, 2017, being the date to which the latest published audited financial statements of the Corporation were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save as disclosed in this Circular, none of the Directors or chief executives of the Corporation was materially interested in any contract or arrangement entered into by any member of the Group since December 31, 2017, being the date to which the latest audited financial statements of the Corporation were made up, and which was significant in relation to the business of the Group.

**4. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**5. MATERIALS CHANGES**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2017, being the date to which the latest published audited financial statements of the Group have been made up.

**6. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business (as would be required to be disclosed under rule 8.10 of the Listing Rules as if each of them was a controlling shareholder of the Company).

**7. LITIGATION**

As at the Latest Practicable Date, save as disclosed below, no member of the Group was engaged in any litigations or claims and no litigations or claims of material importance was known to the Directors to be pending or threatened against any member of the Group.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior

to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for \$40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the Consolidated Financial Statements for the year ended December 31, 2017 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

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

## 8. EXPERT

(a) The following is the qualification of the expert who has given its opinion or advice for the inclusion in this circular:

Name	Qualifications
Lego Corporate Finance Limited	a corporation licensed and permitted to carry out type 6 (advising on corporate finance) regulated activities under the SFO

(b) Lego Corporate Finance has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

(c) As at the Latest Practicable Date, Lego Corporate Finance does not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

(d) As at the Latest Practicable Date, Lego Corporate Finance has no interest, directly or indirectly, in any assets which had been or proposed to be, since December 31, 2017, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Group.

(e) The letter and recommendation given by Lego Corporate Finance is given as of the date of this Circular for incorporation herein.

## 9. MISCELLANEOUS

(a) The HK company secretary of the Corporation is Ms. Man Ngan Chow, an associate of the Hong Kong Institute of Chartered Secretaries;

(b) The registered office of the Corporation is at Suite 4000, 421 — Seventh Avenue S.W., Calgary, Alberta, Canada T2P 4K9;

(c) The place of business in Hong Kong is 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Central, Hong Kong; and

- (d) The English text of this circular and the accompanying form of Proxy shall prevail over the Chinese text.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Corporation at 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Central, Hong Kong during normal business hours from the date of this Circular up to October 31, 2018 (Hong Kong time) (including the date):

- (a) the scheme document in respect of the Share Option Scheme;
- (b) the Joint Venture Agreement and others supporting agreements;
- (c) the written consent letter from Lego Corporate Finance consenting the issue of this Circular, with the inclusion of its letter and the references to its name in the form and context in which they respectively appear;
- (d) the letter of recommendation from Special Board Committee;
- (e) the letter of advice from Lego Corporate Finance; and
- (f) this Circular.