CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sunshine Oilsands Ltd.:

We have audited the accompanying consolidated financial statements of Sunshine Oilsands Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Oilsands Ltd. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our report, we draw attention to Note 2 in the consolidated financial statements which indicates that for the year ended December 31, 2013, Sunshine Oilsands Ltd. incurred a net loss of $32.8 million and has a negative working capital of $103.2 million and an accumulated deficit of $200.9 million at December 31, 2013. These conditions, along with other matters as set forth in Note 2 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte LLP

Chartered Accountants
March 26, 2014
Calgary, Canada

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

As at December 31,		2013	2012
Assets	**Notes**		
Current assets			
Cash and cash equivalents	4	$ 15,854	$ 282,231
Trade and other receivables	5	1,294	2,155
Prepaids and deposits	6	656	701
		17,804	285,087
Non-current assets			
Exploration and evaluation	7	376,912	366,668
Property, plant and equipment	8	634,672	327,971
		1,011,584	694,639
		$ 1,029,388	$ 979,726
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	9	$ 120,114	$ 68,821
Provisions for decommissioning obligations	10	872	795
		120,986	69,616
Non-current liabilities			
Provisions for decommissioning obligations	10	23,597	39,034
Share purchase warrants	12.2	3,832	-
		148,415	108,650
Shareholders' Equity			
Share capital	12	1,024,423	991,798
Reserve for share-based compensation		57,447	47,395
Deficit		(200,897)	(168,117)
		880,973	871,076
		$ 1,029,388	$ 979,726

Going concern (note 2)
Commitments and contingencies (note 21)
Subsequent event (note 23)

Approved by the Board

"Robert J. Herdman"
Director

"Michael J. Hibberd"
Director

See accompanying notes to the consolidated financial statements.

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

For the years ended December 31	Notes	2013	2012
Other income			
Foreign exchange gains		$ 49	$ 8,999
Interest income		2,170	3,229
		2,219	12,228
Expenses			
Salaries, consulting and benefits		9,920	16,339
Rent		1,068	944
Professional fees		2,304	1,569
Depreciation	8	483	290
Share-based payments	13.5	9,298	13,384
Suspension costs	8	2,652	-
Expensed portion of IPO costs		-	16,258
Finance costs	16	4,775	20,237
Other		4,499	4,935
		34,999	73,956
Loss before income taxes		32,780	61,728
Income taxes	11	-	-
Net loss and comprehensive loss for the year attributable to equity holders of the Company		$ 32,780	$ 61,728
Basic and diluted loss per share	17	0.01	0.02

See accompanying notes to the consolidated financial statements.

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

	Notes	Reserve for share based compensation	Share capital	Deficit	Total
Balance, December 31, 2012		$ 47,395	$ 991,798	$ (168,117)	$ 871,076
Net loss and comprehensive loss for the year		-	-	(32,780)	(32,780)
Issue of common shares	12.1	-	21,086	-	21,086
Issue of shares under employee share savings plan	12.1	-	721	-	721
Recognition of share-based payments	13.5	13,303	-	-	13,303
Issue of shares upon exercise of share options	12.1	-	8,390	-	8,390
Reserve transferred on exercise of share options	12.1	(3,251)	3,251	-	-
Share issue costs, net of deferred tax ($Nil)	12.1	-	(823)	-	(823)
Balance, December 31, 2013		$ 57,447	$ 1,024,423	$ (200,897)	$ 880,973
Balance, December 31, 2011		$ 30,074	$ 219,174	$ (100,661)	$ 148,587
Net loss and comprehensive loss for the year		-	-	(61,728)	(61,728)
Recognition of share-based payments	13.5	20,445	-	-	20,445
Issue of common shares	12.1	-	569,880	-	569,880
Reclassification of share repurchase obligation		-	247,957	-	247,957
Repurchase of common shares		-	(38,731)	-	(38,731)
Issue of common shares for services	19.1	-	8,378	-	8,378
Issue of shares upon exercise of share options		-	8,052	-	8,052
Reserve transferred on exercise of share options		(3,124)	3,124	-	-
Repurchase and cancellation of warrants	12.1	-	-	(5,994)	(5,994)
Recognition of credit on credit facility	19.1	-	-	266	266
Share issue costs, net of deferred tax ($Nil)		-	(26,036)	-	(26,036)
Balance, December 31, 2012		$ 47,395	$ 991,798	$ (168,117)	$ 871,076

See accompanying notes to the consolidated financial statements.

SUNSHINE OILSANDS LTD.

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

For the years ended December 31,	Notes		2013		2012
Cash flows from operating activities					
Net loss		$	(32,780)	$	(61,728)
Finance costs			4,775		20,237
Expense portion of IPO costs			-		10,863
Unrealized foreign exchange losses/(gains)			(49)		21
Interest income			(2,170)		(3,229)
Depreciation			483		290
Share-based payment expense			9,298		13,384
Employee share savings plan			365		-
			(20,078)		(20,162)
Movement in non-cash working capital	22				
Decrease in trade and other receivables			404		1,557
Decrease in prepaids and deposits			45		97
Increase/(decrease) in trade and other payables			4,257		(73)
Net cash used in operating activities			(15,372)		(18,581)
Cash flows from investing activities					
Interest received			2,170		3,229
Payments for exploration and evaluation assets	22		(12,745)		(229,382)
Payments for property, plant and equipment	22		(270,508)		(740)
Net cash used in investing activities			(281,083)		(226,893)
Cash flows from financing activities					
Proceeds from issue of common shares	12.1		32,846		577,932
Payment for repurchase of common shares			-		(38,731)
Payment for share issue costs	22		-		(25,128)
Payment for finance costs	22		(2,817)		(2,000)
Payment for advisory fee	19.1		-		(441)
Payment for warrant settlement			-		(68,863)
Net cash provided in financing activities			30,029		442,769
Effect of exchange rate changes on cash and cash equivalents held in foreign currency			49		(21)
Net (decrease)/increase in cash and cash equivalents			(266,377)		197,274
Cash and cash equivalents, beginning of year			282,231		84,957
Cash and cash equivalents, end of year		$	15,854	$	282,231

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

1. Company information

Sunshine Oilsands Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of its principal place of business is 1020, 903 - 8 Avenue S.W., Calgary, Alberta, T2P 0P7, Canada. The Company's shares were listed on the Stock Exchange of Hong Kong Limited ("SEHK") on March 1, 2012 pursuant to an initial public offering ("IPO") and trades under the stock code symbol of "2012". On January 26, 2012, shareholders of the Company authorized the Company to complete up to a 25:1 share split. The Board of Directors of the Company concluded that a 20:1 share split was appropriate, increasing the number of common shares, preferred shares and stock options to 20 times their previous outstanding amounts. All share and stock option information is therefore presented on a post split basis. On November 16, 2012, the Company completed a listing of its common shares on the Toronto Stock Exchange ("TSX") and trades under the symbol of "SUO".

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

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

On August 6, 2013, the Company announced the Board of Directors has directed management of the Company to commence a strategic review process to identify, examine and consider a range of strategic alternatives available to Sunshine, with a view to progressing its oilsands development strategy and to preserving and maximizing shareholder value. This process could result in one or more strategic transactions being completed by the Company including: debt or equity financing of the Company, a joint venture or other strategic transaction involving Sunshine, or its assets, and a third party. There can be no assurance any of these alternatives will be completed.

2. Basis of preparation

Going Concern
These consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the year ended December 31, 2013, the Company reported a net loss of $32.8 million. At December 31, 2013, the Company had negative working capital of $103.2 million and an accumulated deficit of $200.9 million. The Company's recent losses and negative cash flow have resulted in a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern without additional financing. Effective August 18, 2013, the Company suspended construction of its West Ells SAGD project, pending sourcing of additional financing.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. The appropriateness of the going concern basis is dependent upon, among other things, the ability to obtain debt or equity financing, a joint venture or a sale of assets in order to have sufficient funding to meet its obligations that enables the Company to continue as a going concern, the ability to generate sufficient cash from operations and future profitable operations. There can be no assurance the Company will be able to continue as a going concern.

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 18). The consolidated financial statements are presented in Canadian Dollars ("C$"), which is the functional currency of the Company.

2.2 Critical accounting judgments and key sources of estimation uncertainty

In applying the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the affected periods.

2.2.1 Critical judgments and estimates in applying accounting policies

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

Going concern
As disclosed in Note 2, these financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

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

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

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production forecasts, prices and other economic conditions;

- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and

- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Company's development and production assets are determined using proved plus probable reserves.

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

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

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

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

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

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

3. Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiary, Sunshine Oilsands (Hong Kong) Limited. The Company's wholly owned subsidiary, Fern Energy Ltd., was wound up during the year ended December 31, 2013.

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements when control is achieved and until control is lost. Inter-company transactions, balances, revenues and expenses are eliminated on consolidation.

3.2 Oil and Natural Gas Exploration and Development Expenditures

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

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

The decision to transfer assets from exploration and evaluation to development and producing assets (included in property, plant and equipment ("PPE")) occurs when the technical feasibility and commercial viability of the project is determined, based on economically recoverable reserves being assigned to the project.

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

Exploration and evaluation assets are tested for impairment at least annually and prior to reclassification. To test for impairment, exploration and evaluation assets are allocated to each CGU or groups of CGU, that are expected to benefit from the exploration and evaluation activity. E&E assets are assessed for impairment within the aggregation of all CGU's in that segment. After impairment is assessed, any carrying amounts which exceed recoverable amounts on the exploration and evaluation assets are written down to the recoverable amount through the consolidated statements of operations and comprehensive loss.

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

3.3 Property, plant and equipment

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

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

Depletion and depreciation
Depletion of development and production costs (crude oil assets), included in property, plant and equipment, and depreciation of production equipment are measured on the unit-of-production method based upon estimated proved plus probable recoverable oil and natural gas reserves before royalties in each CGU as determined by independent engineers. For purposes of this calculation, reserves are converted to barrel of oil equivalent units based on their approximate energy content at six thousand cubic feet of natural gas to one barrel of oil.

In-situ oil sands processing facilities and support equipment are depreciated on a straight-line basis over their estimated useful lives. Office furniture, equipment and computers are depreciated on a declining balance basis at 30 percent per year.

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

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU, or group of CGUs and then reducing the carrying amount of other assets of the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognised as an expense in the consolidated statements of operations and comprehensive loss unless it is related to a re-valued asset where the value changes are recognised directly into equity.

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

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

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

3.4 Provisions

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

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

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

3.4.1 Decommissioning costs

Decommissioning costs and liabilities for statutory, contractual, constructive or legal obligations associated with site restoration and abandonment of tangible long-lived assets are initially measured at a fair value which approximates the cost the Company would incur in performing the tasks necessary to abandon the field and restore the site. Fair value is recognised in the consolidated statement of financial position at the present value of expected future cash outflows to satisfy the obligation as a liability, with a corresponding increase in the related asset, and is depleted or depreciated using the unit-of-production method over the estimated remaining proved plus probable oil and gas reserves before royalties, or the straight-line method, as appropriate. Subsequent to initial measurement, the effect of the passage of time on the liability for the decommissioning obligation (accretion expense) is recognised in the consolidated statements of operations and comprehensive loss as finance costs. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognised as a gain or loss in the consolidated statements of operations and comprehensive loss in the period in which the settlement occurs.

3.5 Share-based payments

3.5.1 Equity-settled share-based payment transactions

Share options and preferred shares issued to employees
Equity-settled share-based payments to directors and employees are measured at the fair value of the equity instruments, less the fair value of the proceeds received on issuing the equity instruments at the issue date.

The fair value of the equity instruments, including share options, warrants or preferred shares, expected to vest as determined at the issue date of the equity-settled share-based payments is expensed on a graded vesting basis over the vesting period, unless the services are directly attributable to qualifying assets, with a corresponding increase in reserve for share based compensation.
At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statements of operations and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share based compensation.

At the time when the equity instruments are exercised or converted, the amount previously recognised in reserve for share based compensation will be transferred to share capital. When the equity instruments are cancelled, they are treated as if they had vested on the date of cancellation and any cost not yet recognised in the consolidated statements of operations and comprehensive loss is expensed immediately.

The Company records compensation expense at the date of issue, based on fair value and management's best estimate of the prospect of converting some, or all, of the Class "G" and Class "H" preferred shares to Class "A" common shares. There were no issuances of either Class "G" and Class "H" preferred shares post IPO on March 1, 2012.

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

3.5.2 Cash-settled share-based payment transactions

For cash-settled share-based payments (including SARs), the Company measures the goods or services acquired and the fair value of the liability incurred. At the end of each reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in the consolidated statements of operations and comprehensive loss.

3.6 Financial assets

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

3.6.2 Loans and receivables

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

3.6.3 Impairment of financial assets

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

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

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

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

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

3.6.4 Derecognition of financial assets

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

3.7 Financial liabilities and equity instruments issued by the Company

3.7.1 Classification as debt or equity

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

3.7.2 Equity instruments

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

3.7.3 Financial liabilities

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

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

The Company has classified its share purchase warrants at FVTPL.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Company has classified its trade and other payables, borrowings and share repurchase obligation as other financial liabilities.

3.7.4 Derecognition of financial liabilities

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

3.7.5 Flow-through shares

Pursuant to the terms of flow-through share agreements, tax deductions associated with eligible expenditures are renounced to the subscribers. Flow-through shares are recorded at their fair value without any adjustment for the renouncement of tax deductions. The difference between the fair value of the flow-through share and the cash received for the flow-through share is recorded as an obligation to renounce the flow through share expenditure. This obligation is reversed and a deferred tax liability is recognised once the eligible expenditures are renounced and the obligation in respect of the share is met.

3.8 Derivatives and embedded derivatives

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

3.9 Taxation

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

3.9.1 Current tax

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

3.9.2 Deferred tax

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

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

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

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

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

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

3.10 Cash and cash equivalents

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

3.11 Related party transactions

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

3.12 Borrowing costs

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

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

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

3.13 Deferred costs

Deferred costs presented as Other Assets primarily consist of costs incurred for the IPO. In March 2012 with the closing of the IPO financing, the allocated amount relating to the issuance of new shares under the IPO was charged to share issue costs and the remainder of IPO costs were expensed in the period.

3.14 Jointly controlled assets

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

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

3.15 Treasury shares

The Company's own equity instruments that are repurchased by the Company are recognized at the market price at the date of repurchase and deducted from share capital.

3.16 Future accounting changes

The International Accounting Standard Board (the "IASB") issued a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and related Interpretations ("IFRICs") (hereinafter collectively referred to as the "New IFRSs") which are effective for the Company's financial period beginning on January 1, 2014. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and these standards are not expected to have a material impact on its consolidated financial statements.

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by the Company on January 1, 2014 and the adoption will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

In May 2013, the IASB issued IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. IFRIC 21 will be applied by the Company on January 1, 2014 and the adoption may have an impact on the Company’s accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12 "Income Taxes". The Company is currently assessing and quantifying the effect on its financial statements.

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

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

3.17 Changes in accounting policies

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's financial statements follows below:

• IFRS 10 "Consolidated Financial Statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities." This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. The retrospective adoption of this standard did not have any impact on the Company's financial statements.

• IFRS 11 "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The retrospective adoption of this standard did not have any impact on the Company's financial statements.

• IFRS 12 "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. The retrospective adoption of the annual disclosure requirements of this standard did not have a material impact on the Company's annual financial statements.

• IFRS 13 "Fair Value Measurement" defines fair value, establishes a framework for measuring fair value, and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard requires the revaluation of certain derivative financial liabilities on the Company's consolidated statement of financial position to reflect an appropriate amount of risk of non-performance by the Company. The standard also requires additional annual fair value disclosures, as well as additional interim disclosures. The prospective adoption of this standard did not have a material impact on the Company's financial statements.

• IAS 27 "Separate Financial Statements" has been amended as a result of changes to IFRS 10. The retrospective adoption of these amendments did not have any impact on the Company's financial statements.

• IAS 28 "Investments in Associates and Joint Ventures" has been amended as a result of changes to IFRS 10 and IFRS 11. The retrospective adoption of these amendments did not have any impact on the Company's financial statements.

• The amendments to IAS 32 "Financial Instruments: Presentation" clarify the current requirements for offsetting financial instruments. The amendments to IFRS 7 "Financial Instruments: Disclosures" develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The Company retrospectively adopted the amendments to both standards on January 1, 2013. The application of these amendments did not have any impact on the Company's financial statements, other than increasing the level of disclosures provided in the notes to the financial statements.

4. Cash and cash equivalents

		2013		2012
Cash	$	15,854	$	13,966
Term deposits		-		268,265
	$	15,854	$	282,231

5. Trade and other receivables

		2013		2012
Trade	$	558	$	297
Accruals and other receivables		137		387
Goods and Services Taxes receivable		599		1,471
	$	1,294	$	2,155

6. Prepaid expenses and deposits

		2013		2012
Prepaids	$	193	$	276
Deposits		463		425
	$	656	$	701

7. Exploration and evaluation assets

Balance, December 31, 2011	$	382,277
Capital expenditures		269,348
Non-cash expenditures[1]		41,845
Transferred to PP&E		(326,802)
Balance, December 31, 2012	$	366,668
Capital expenditures		17,313
Disposal		(4,568)
Non-cash expenditures[1]		(2,501)
Balance, December 31, 2013	$	376,912

1. Non-cash expenditures include capitalized share-based payments/(recovery), financing costs and decommissioning obligations.

The Company is a development stage entity and, as a result, no depletion expense has been recorded for exploration and evaluation assets for any period. During the year ended December 31, 2013, the Company capitalized directly attributable costs/(recovery) including $0.03 million for share-based payment expense (2012 - $0.9 million), $(0.6) million of pre-production operating loss/(income) (2012 - $1.9 million), $Nil million of finance costs (2012 - $1.3 million) and $0.6 million of general and administrative costs (2012 - $1.8 million), respectively.

During the year ended December 31, 2012, the Company transferred $326.8 million of accumulated costs with respect to the West Ells project from exploration and evaluation assets to crude oil assets included in property, plant and equipment (Note 8).

During the year ended December 31, 2013, the Government of Alberta approved the Lower Athabasca Regional Plan ("LARP") to set aside land for conservation, tourism and recreation. The implementation of, and compliance with the terms of LARP impacted the Company's properties in northern Alberta, specifically the Harper CGU. The Company was reimbursed for the oil sands leases cancelled in the amount of $4.9 million, which included $0.7 million of interest. Legal costs of $0.4 million that were previously capitalized were not reimbursed by the Government of Alberta. The legal costs of $0.4 million were expensed to professional fees and credited to capital costs and presented as a disposal. The proceeds, excluding the interest, was credited to capitalized costs and presented as a disposal.

On October 20, 2013, the Company signed a joint venture ("JV") arrangement for the Muskwa and Godin properties. Under the terms of the JV, the new partner acquired a 50% working interest in the properties in return for spending up to $250 million, or achieving production of 5,000 barrels per day, whichever comes first. If neither of the spending or production targets are met by three years after project regulatory approval, but in any event no later than October 20, 2019, the new partner's working interest is reduced in proportion to the higher of the percentage of the spending and the production target amounts achieved. The deal excludes the carbonate oil sands rights, which remain 100% owned by the Company. This JV was accounted for as a joint arrangement and there was no financial impact on these financial statements for the year ended December 31, 2013.

Exploration and evaluation costs are comprised of the following:

		2013		**2012**
Intangibles	$	269,992	$	258,664
Tangibles		19,553		17,200
Land and lease costs		87,367		90,804
	$	376,912	$	366,668

8. Property, plant and equipment

		Crude oil assets		**Corporate assets**		**Total**
Cost						
Balance, December 31, 2011	$	-	$	1,208	$	1,208
Capital expenditures		-		740		740
Non-cash expenditures[1]		-		-		-
Transferred from E&E		326,802		-		326,802
Balance, December 31, 2012	$	326,802	$	1,948	$	328,750
Capital expenditures		314,945		1,737		316,682
Non-cash expenditures[1]		(9,498)		-		(9,498)
Balance, December 31, 2013	$	632,249	$	3,685	$	635,934

1. Non-cash expenditures include capitalized share-based payments/(recovery), financing costs and decommissioning obligations.

		Crude oil assets		Corporate assets		Total
Accumulated depreciation						
Balance, December 31, 2011	$	-	$	489	$	489
Depreciation expense		-		290		290
Balance, December 31, 2012	$	-	$	779	$	779
Depreciation expense		-		483		483
Balance, December 31, 2013	$	-	$	1,262	$	1,262
Carrying value, December 31, 2013	$	632,249	$	2,423	$	634,672
Carrying value, December 31, 2012	$	326,802	$	1,169	$	327,971

At December 31, 2013, the crude oil assets included in the above property, plant and equipment were not subject to depletion since they are not ready for use in the manner intended by management.

During the year ended December 31, 2013, the Company capitalized directly attributable costs including $10.1 million for general and administrative costs (2012 - $8.4 million), and $4.0 million for share-based payment expense (2012 - $6.2 million).

The Company was focused on evaluating and developing these assets with the first project being an initial 10,000 barrels per day plant located at West Ells. Phase 1 of West Ells is designed for 5,000 barrels per day while Phase 2 will add an additional 5,000 barrels per day. Substantial engineering, procurement and construction activity occurred for West Ells during 2012 and the first half of 2013; however, due to lack of sufficient funding to complete the Project, these activities were suspended in August 2013 pending additional financing. Sunshine is maintaining staff at site to continue with reduced work activities and to ensure safety of the worksite and preservation of the West Ells asset and the costs, which totalled $2.6 million for the year, are recognised as suspension costs in the consolidated statements of operations and comprehensive loss.

During the year ended December 31, 2012, the Company transferred $326.8 million of accumulated costs with respect to the West Ells project from exploration and evaluation assets. This transferred amount included directly attributable costs capitalized for the year ended December 31, 2012 as follows: $6.2 million of share-based payment expense, $0.8 million of finance costs and $8.4 million of general and administrative costs.

9. Trade and other payables

		2013		2012
Trade	$	103,006	$	6,815
Accrued liabilities		17,108		62,006
	$	120,114	$	68,821

10. Provisions for decommissioning obligations

At December 31, 2013 , the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $45.1 million (2012 - $73.4 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate between 1.10% to 3.09% per annum and inflated using an inflation rate of 2.0% per annum.

		December 31, 2013		December 31, 2012
Balance, beginning of year	$	39,829	$	6,400
Additional provision recognized		2,905		32,346
Effect of changes in discount rate		(18,902)		322
Unwinding of discount rate and effect		637		761
	$	24,469	$	39,829
Current portion		(872)		(795)
Balance, end of year	$	23,597	$	39,034

11. Income taxes

11.1 Income taxes recognized in the Statement of Operations

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rate of 25.0% (2012 – 25.0%) to earnings before income taxes for the following reasons:

For the years ended December 31,		2013		2012
Net loss before taxes	$	(32,780)	$	(61,728)
Tax rate (%)		25.0%		25.0%
Expected income tax recovery		(8,195)		(15,432)
Effect of expenses that are not deductible in determining taxable profit:				
Share based payment expense		2,324		3,346
Non-deductible interest		-		1,004
Capital portion of foreign exchange gain		(6)		(1,125)
Unrecognized tax assets				12,033
Changes to opening tax pools		(15,376)		174
Change in deferred tax benefits not recognized		21,253		-
Income tax recovery	$	-	$	-

11.2 Deferred tax balances

The components of the net deferred income tax asset as at December 31, 2013 are as follows:

		2013		2012
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment		(92,947)		(55,958)
Decommissioning liabilities		6,117		9,961
Share issue costs		14,146		22,059
Non-capital losses		93,937		23,938
Deferred tax benefits not recognized		(21,253)		-
	$	-	$	-

11.3 Tax pools

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

		2013		2012
Canadian development expense		47,674		47,027
Canadian exploration expense		276,605		214,288
Undepreciated capital cost		335,396		169,821
Non-capital losses		375,750		229,304
Other		56,583		88,238
	$	1,092,008	$	748,678

The Company's non-capital losses of $375,750 (2012 - $229,304), expire between 2028 and 2033.

12. Share capital

The Company's authorized share capital is as follows:

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

Issued Capital

		2013		2012
Common shares	$	1,024,423	$	991,758
Class "G" preferred shares		-		29
Class "H" preferred shares		-		11
	$	1,024,423	$	991,798

12.1 Common shares

Years ended December 31,		**2013**		**2012**
	Number of shares	$	Number of shares	$
Balance, beginning of year	2,831,713,161	991,758	1,470,171,240	216,761
Issue of shares under IPO	-	-	923,299,500	569,880
Private placement (Note 12.2)	106,800,000	24,918		
Issue of shares under employee share savings plan (Note 13.2)	3,014,630	721		
Issued for service	-	-	13,566,395	8,378
Reclassification of share purchase warrants	-	(3,832)	-	-
Reclassification of share repurchase obligation	-	-	433,884,300	247,957
Repurchase of common shares	-	-	(85,091,500)	(38,731)
Repurchase of purchase warrants	-	-	-	2,371
Conversion of preferred shares exercised[1]	78,945,000	40	1,450,800	2
Issue of shares under share option plan (Note 13)	46,695,000	8,390	74,432,426	8,052
Share option reserve transferred on exercise of stock options	-	3,251	-	3,124
Share issue costs, net of tax	-	(823)	-	(26,036)
Balance, end of year	3,067,167,791	1,024,423	2,831,713,161	991,758

[1] Relates to conversion of 82,390,000 Class "G" and Class "H" preferred shares (Note 12.3,12.4)

Common shares

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

On January 4, 2012, the Company completed the repurchase and cancellation of all purchase warrants. As a result, 14,412,160 purchase warrants with a value of $2.4 million were transferred to common shares.

On March 1, 2012, the Company successfully closed a Qualifying IPO on the SEHK, issuing 923,299,500 common shares at HK$4.86 per share, raising gross proceeds of $569.9 million (HK$4.5 billion) (Note 14). Pursuant to this event, the Company recognized an advisory fee owing (Note 19.1) of $8.8 million (HK$69.4 million). The obligation was settled through the issuance of 13,566,395 common shares for $8.4 million and cash paid of $0.4 million.

Also in conjunction with the Qualifying IPO, the balance of $230.2 million of the share repurchase obligation (net of transaction costs of $17.8 million), including 433,884,300 common shares (originally comprised of 289,256,200 Class "A" common shares and 144,628,100 Class "B" common shares), were reclassified to share capital as the terms of the Subscription Agreements were agreed with the subscription holders to have been met and the share repurchase obligation was extinguished. Prior to closing of the IPO, 144,628,100 Class "B" common shares were exchanged for Class "A" common shares on a one for one basis and then cancelled. Total transaction costs of $17.8 million, which were netted against the share repurchase obligation, included cash fees paid of $11.4 million and $6.4 million assigned as fair value of fee warrants issued to finders. The carrying value of these transaction costs was allocated to share issue costs for $4.7 million. The remainder of $13.0 million has been included in finance costs (Note 16) for the year ended December 31, 2012.

For the year ended December 31, 2012, pursuant to total costs incurred for its IPO, the Company recognized an allocation amount of share issue costs of $21.1 million.

In 2012, the Company repurchased and cancelled 85,091,500 common shares at a weighted average price per common share of $0.46 (HK$3.43), for total consideration of $38.7 million. There were no share repurchases in 2013.

12.2 Share purchase warrants

Years ended December 31,		2013		2012
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of year	-	-	14,412,160	-
Granted	78,320,000	0.26	-	-
Repurchased and cancelled	-	-	(14,412,160)	-
Balance, end of year	78,320,000	0.26	-	-
Exercisable, end of year	78,320,000	0.26	-	-

On December 10, 2013, the Company completed the first closing of its private placement of 106,800,000 Units at a price of HK $1.70 per Unit (approximately C$0.23 per Unit). Each Unit is comprised of one Class "A" common share and one-third of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of HK $1.88 per common share (approximately C$0.26 per common share) for a period of 24 months following the closing date. These warrants were valued at C$0.04 per warrant for a total of C$1.74 million. As part of a finder's fee, the Company issued two-fifths of a warrant for each purchased Unit. These warrants were valued at C$0.04 per warrant for a total of C$2.09 million. Total value of all warrants at December 31, 2013, was $3.83 million. The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 1.13%, expected volatility of 43.01% and an expected life of two years. The total costs to complete the private placement were C$0.745 million which included a 3% finder's fee on gross proceeds.

As the exercise price of the share purchase warrants is fixed in Hong Kong dollars and the functional currency of the Company is in the Canadian dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. The fair value of share purchase warrants is reclassified to equity upon exercise. The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in the consolidated statements of operations and comprehensive loss. At December 31, 2013, the fair value of share purchase warrants issued and outstanding with Canadian dollar exercise prices was consistent with the fair value on the date of issue, therefore, no gain or loss has been recorded.

In September 2011, in conjunction with the Company's preliminary prospectus filing for an IPO and pursuant to certain conditions and requirements of this filing for a public listing on the SEHK, the Company, through its independent directors, commenced negotiations with significant warrant holders, who were also shareholders of the Company, to repurchase and cancel all issued and outstanding purchase and fee warrants. The reference price for the repurchase of all warrants was determined by a committee of independent directors of the Company.

On January 4, 2012, the Company completed the repurchase and cancellation of all purchase and fee warrants. For the year ended December 31, 2012, the Company recognized $Nil fair value adjustment on the 124,719,900 purchase warrants and the 12,499,920 fee warrants since the fair value of the warrants was based on the settlement amount paid to warrant holders. The remaining 14,412,160 purchase warrants were charged to share issue costs in 2011 with a fair value determined using the Black Scholes pricing model of $6.4 million.

12.3 Class "G" preferred shares

The Company's Board of Directors authorized for issuance a maximum of 65,000,000 Class "G" preferred shares. The Class "G" preferred shares were issued at $0.0005 per Class "G" preferred share and were convertible into Class "A" common shares at the option of the holder at any time in accordance with the conversion schedule outlined below.

			2013			**2012**
	Number of shares	$	Weighted average price $	Number of shares	$	Weighted average price $
Balance, beginning of year	60,440,000	29	0.33	63,310,000	31	0.33
Issued	-	-	-	830,000	-	0.48
Converted	(60,190,000)	(29)	0.33	(3,700,000)	(2)	0.39
Cancelled	(250,000)	-	-	-	-	-
Balance, end of year	-	-	-	60,440,000	29	0.33
Convertible, end of year	-	-	-	27,802,400	14	0.33

Conversion of Class "G" preferred shares

Conversion period	Preferred shares conversion schedule %	Class "G" Preferred Shares converted	Class "A" Common Shares issued
January 1, 2013 – February 28, 2013	46%	600,000	276,000
March 1, 2013 – August 31, 2013	62%	7,200,000	4,464,000
September 1, 2013 – November 30, 2013	78%	1,750,000	1,365,000
December 1, 2013 – December 31, 2013	100%	50,640,000	50,640,000
Total		60,190,000	56,745,000

12.4 Class "H" preferred shares

The Company's Board of Directors authorized for issuance a maximum of 25,000,000 Class "H" preferred shares. The Class "H" preferred shares were entitled to one vote per share and were issued at $0.0005 per Class "H" preferred share and were convertible into Class "A" common shares at the option of the holder at any time in accordance with the conversion schedule outlined below.

			2013			**2012**
	Number of shares	$	Weighted average price $	Number of shares	$	Weighted average price $
Balance, beginning of year	22,200,000	11	0.42	22,200,000	11	0.42
Converted	(22,200,000)	(11)	0.42	-	-	-
Balance, end of year	-	-	-	22,200,000	11	0.42
Convertible, end of year	-	-	-	10,212,000	5	0.42

Conversion of Class "H" preferred shares

Time period	Preferred shares conversion schedule %	Class "H" Preferred Shares converted	Class "A" Common Shares issued
December 1, 2013 – December 31, 2013	100%	22,200,000	22,200,000
Total		22,200,000	22,200,000

Features of Class "G" and Class "H" preferred shares

The term, conversion rights and conversion schedule were the same for both the Class "G" and the Class "H" preferred shares. The preferred shares had a term commencing from the date of issue until the earlier of December 31, 2013 or a change of control (the "expiry date"). All Class "G" and Class "H" preferred shares were converted to common shares on or before December 31, 2013.

Both the Class “G” and the Class “H” preferred shares were convertible into Class “A” common shares on a one for one basis, at the option of the holder, at any time prior to the expiry date for no additional consideration to the Company.

Prior to the IPO, the holders of Class “G” and Class “H” preferred shares were only entitled to a redemption amount of $0.0005 per Class “G” and Class “H” preferred share.

The Class “G” preferred shares were redeemable by the Company at any time for the number of Class “A” common shares the holder was entitled to on the date of redemption as set out in the above conversion schedule. The Class “H” preferred shares were redeemable by the Company for $0.0005 each on or after the date that was 21 months after an IPO, upon 30 days’ notice to the holder.

The preferred shares were retractable at the option of the holder commencing on the date that is 21 months after an IPO for the number of Class “A” common shares the holder was entitled to on the date of redemption as set out in the above conversion schedule for $0.0005 each.

In the event that a holder of preferred shares ceased to be eligible to hold preferred shares (e.g. ceased to be a director, officer, employee, consultant or advisor of the Company), the preferred shares held by such holder terminated and were cancelled on the date that was 30 days after such holder ceased to be eligible and, to the extent the holder requested such preferred shares be converted or redeemed, was convertible or redeemable for the number of Class “A” common shares the holder was then entitled to on the date the person ceased to be eligible.

13. Share-based payments

13.1 Employee stock option plan

Post-IPO Stock Option Plan:

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

13.2 Employee share savings plan

The Company’s Board of Directors approved the establishment of an employee share savings plan (“ESSP”) on May 7, 2013. The maximum number of Class “A” common shares that may be reserved for issuance pursuant to the ESSP is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the ESSP and the shares issuable on the exercise of options granted under the Post IPO Share Option Plan and the Pre IPO Plan. Under the terms of the ESSP, the Company matches 100% of a participating employee’s contributions to the ESSP up to a set maximum. Contributions made by the Company and employees are used to purchase Company shares. Compensation expense is recognized based on the fair value of the award on the ESSP contribution date.

13.3 Fair value of share options granted in the period

The weighted average fair value of the share options granted for the year ended December 31, 2013 was $0.25 (2012:$0.27). 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 behavioural considerations. Expected volatility is based on the historical share price volatility of the Company during 2013. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate range of 5.20 to 6.12% (2012:1%).

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

Input Variables	2013	2012
Grant date share price ($)	0.25-0.26	0.38-0.80
Exercise Price ($)	0.25-0.26	0.38-0.80
Expected volatility (%)	49.19-50.37	66.5-87.0
Option life (years)	3.0	3.0-4.67
Dividend yield (%)	-	-
Risk-free interest rate (%)	1.08-1.12	1.09-1.30
Expected forfeitures (%)	5.20-6.12	3.23

13.4 Movements in stock options during the year

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

Years ended December 31,	2013		2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, beginning of year	192,505,688	0.37	202,958,540	0.22
Granted	6,850,368	0.25	70,194,338	0.55
Exercised	(46,695,000)	0.18	(74,432,426)	0.11
Forfeited	(17,515,463)	0.39	(6,214,764)	0.51
Balance, end of year	135,145,593	0.43	192,505,688	0.37
Exercisable, end of year	102,500,487	0.39	129,172,529	0.29

As at December 31, 2013, the stock options outstanding had a weighted average remaining contractual life of 2.4 years (December 31, 2012 – 2.6 years).

13.5 Share-based compensation

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

Years ended December 31,			2013			2012
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 3,233	$ 728	$ 3,961	$ 6,804	$ 3,395	$ 10,199
Preferred shares	6,065	3,277	9,342	6,580	3,666	10,246
	$ 9,298	$ 4,005	$ 13,303	$ 13,384	$ 7,061	$ 20,445

14. Share repurchase obligation

For the years ended December 31,	2013	2012
Balance, beginning of year	$ -	$ 224,362
Accretion	-	5,864
Reclassification to common shares	-	(230,226)
	$ -	$ -

On March 1, 2012, the Company successfully closed a Qualifying IPO and listing on the SEHK. Pursuant to this event, the balance of the share repurchase obligation of $230.2 million (net of total transaction costs of $17.8 million), including 433,884,300 common shares comprising of 289,256,200 Class “A” common shares and 144,628,100 Class “B“ common shares, has been reclassified to share capital as the terms of the Subscription Agreements were agreed with the subscription holders to have been met and the share repurchase obligation has been extinguished. The Class “B” common shares were surrendered for cancellation and exchanged for Class “A” common shares.

For the year ended December 31, 2012, finance costs expensed were $4.0 million (2011 - $5.3 million) and finance costs of $1.9 million (2011 - $0.2 million) were capitalized as the funds are directly attributable to the development of the Company's qualifying assets.

Of the total transaction costs which were netted against the obligation, $4.7 million has been proportionately allocated to share issue costs with the remaining $13.0 million expensed for the year ended December 31, 2012.

15. Credit facility

In October 2012, the Company signed a Credit Facility of up to $200 million with a syndicate of financial institutions. Undrawn amounts were subject to a standby fee of 100 basis points per annum. The Credit Facility was secured by all assets of the Company.

The amount available for draw under the facility depended on the value attributed to the Company's Proved reserves by its independent engineers, while drawdown was subject to, among other things, demonstrating sufficient funding (including draws under the Credit Facility) to complete the West Ells project to a defined stage. The Credit Facility matured on October 10, 2013 and was cancelled by the Company.

16. Finance costs

For the years ended December 31,		2013		2012
Finance cost on share repurchase obligations[1]	$	-	$	5,864
Expensed portion of share issue costs[2]		-		13,012
Finance cost on related party loan[3]		-		266
Finance cost on credit facility[4]		1,541		2,449
Financing related costs[5]		2,597		-
Unwinding of discounts on provisions		637		761
Less: Amounts capitalized in exploration and evaluation assets[6]		-		(2,115)
	$	4,775	$	20,237

1. There were no finance costs associated with the share repurchase obligations for the year ended December 31, 2013. Finance costs on share repurchase obligations relate to the $210.0 million common share subscriptions, which closed in February 2011. These finance costs relate to accretion of the common share subscriptions, which had a share repurchase right, and have been accounted for using the effective interest method. During the year ended December 31, 2012, total finance costs of $5.9 million were recognized, of which, $1.9 million was capitalized in exploration and evaluation assets with the remaining $4.0 million expensed in finance costs, respectively. On March 1, 2012, the share repurchase obligation was reclassified to equity.

2. There were no share issue costs expensed in the year ended December 31, 2013. For the year ended December 31, 2012, expensed portion of share issue costs of $13.0 million, relates to the allocation portion of transaction costs incurred in relation to 433,884,300 common shares issued in February 2011 for $210.0 million, which were previously netted against the share repurchase obligation.

3. The related party loan was terminated in October 2012; as such, there were no finance costs for the year ended December 31, 2013. During the year ended December 31, 2012, the Company drew and repaid $30.0 million on an available $100.0 million credit facility. The loan was accounted for using the effective interest method (Note 19.1). During the year ended December 31, 2012, total finance costs of $0.3 million were recognized, of which, $0.2 million was capitalized in exploration and evaluation assets with the remaining $0.1 million expensed in finance costs, respectively.

4. For the year ended December 31, 2013, finance costs on Credit Facility (Note 15) of $1.5 million were incurred for standby fees (2012 - $Nil).

5. For the year ended December 31, 2013, financing related costs of $0.9 million are for legal and other professional expenses incurred (2012 - $Nil), and $1.7 million for interest expenses.

6. No finance costs were capitalized for the year ended December 31, 2013. For the year ended December 31, 2012, amount consists of $1.9 million for capitalized portion of finance costs on the share repurchase obligation and $0.2 million capitalized finance costs on the credit facility, respectively.

17. Loss per share

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

For the years ended December 31,	2013	2012
Basic and Diluted – Class "A" common shares[1]	2,884,205,670	2,661,962,522
Class "G" preferred shares (Note 12.3)	-	60,440,000
Class "H" preferred shares (Note 12.4)	-	22,200,000
Stock options	135,145,593	192,505,688

[1] The number of Class "A" common shares presented is the weighted average number of shares for the year ended December 31, 2012. Prior to the closing of the IPO on March 1, 2012, 289,256,200 redeemable Class "A" common shares and 144,628,100 redeemable Class "B" common shares were excluded from the weighted average calculation.

18. Financial instruments

18.1 Capital risk management

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

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

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

		2013		2012
Working capital (surplus)/deficiency	$	103,182	$	(215,471)
Shareholders' equity		880,973		871,076
	$	984,155	$	655,605

There is no change in the Company's objectives and strategies of capital management for the year ended December 31, 2013.

18.2 Categories of financial instruments

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	$	$	$	$
Cash, deposits and other receivables	17,611	17,611	284,811	284,811
Financial liabilities				
Other liabilities	120,114	120,114	66,621	66,621
Share purchase warrants	3,832	3,832	-	-

18.3 Fair value of financial instruments

The fair value of cash, term deposits, trade and other receivables and trade and other payables approximate their carrying values due to their short term maturity. These financial instruments have been assessed on a Level 1 fair value measurement.

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

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

18.4 Financial risk management

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

18.5 Market risk

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

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, and accounts payable which are denominated in US dollars and/or HK dollars. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2013. If exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2013 would have been impacted by approximately $4 thousand. At December 31, 2013, the Company held approximately HK$3.1 million or $0.4 million using the December 31, 2013 exchange rate of 7.2901, as cash in the Company's Hong Kong bank account.

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

18.6 Interest rate risk management

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2013, the Company does not have any floating rate debt.

The Company's cash and cash equivalents consists of cash held in bank accounts and term deposits that earn interest at variable interest rates. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values or result in material interest rate risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. For the year ended December 31, 2013, the interest rate earned on cash equivalents was between 0.5% and 1.30%.

18.7 Credit risk management

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash, deposits and receivables and GST receivables. As at December 31, 2013, the Company's receivables consisted of 46% from Goods and Services Tax receivable, 51% joint interest billing receivable and 3% from other receivables (2012 – 68% from oil sale receivables, 26% from Goods and Services Tax receivable and 6% from other receivables).

The Company's cash and cash equivalents as at December 31, 2013, are held in accounts with third party financial institutions and consist of invested cash and cash in the Company's operating accounts. The cash equivalents portion is invested in high yield savings and high grade liquid term deposits.

The Company is exposed to credit risk from the purchasers of its crude oil. At December 31, 2013, there was no allowance for impairment of accounts receivable and the Company did not provide for any doubtful accounts nor was it required to write-off any receivables, as no receivables were considered past due or impaired (2012 - $Nil). The Company considers any amounts outstanding in excess of 30 days past due.

18.8 Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or debt proceeds. Although additional equity has been raised since December 31, 2013, the Company had negative working capital of $103.2 million and an accumulated deficit of $200.9 million. The Company's recent losses and negative cash flow have resulted in a material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern without additional financing.

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

19. Related party transactions

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

19.1 Trading transactions

The Company had transactions with a law firm in which a director of the Company is a partner. The Company also paid consulting fees to two directors of the Company (Note 19.2).

During the year, the Company recorded the following trading transactions with related parties[1]:

For the year ended December 31,		2013		2012
Share issue costs	$	-	$	271
		-		271
Legal expense	$	926	$	398
Finance fees		235		-
Expensed portion of IPO costs		-		551
Capitalized to E&E		272		-
	$	1,433	$	949

1. Excluded from the transactions above are consulting fees paid to two directors of the Company, which are separately disclosed in Note 19.2.

The following balances were outstanding and included in trade and other payables at the end of the reporting year:

		2013		2012
Legal	$	887	$	136

Advisory Fee Agreement (the "Agreement")

During 2010, the Company entered into the Agreement in which the Company agreed to pay a fee for services to be rendered in connection with an initial filing of an IPO prospectus and listing. On March 1, 2012, the Company successfully closed its Qualifying IPO and listing on the SEHK. Pursuant to this event, the obligation was settled through the issuance of 13,566,395 common shares for $8.4 million and cash paid of $0.4 million. The service provider is a company which is controlled by a director who is a principal of a significant shareholder of the Company, and who also holds a senior management position with the service provider company.

Credit Facility Agreement (the "Credit Facility Agreement")

The Company had a Credit Facility Agreement with a non-arm's length lender in which a credit facility for general working capital purposes was available of up to a maximum of $100 million. During the year ended December 31, 2012, the Company drew $30.0 million on the credit facility and subsequently repaid the balance prior to period end. The loan was a financial liability and was classified as other liabilities and recorded at amortised cost, using the effective interest method. For the year ended December 31, 2012, total finance costs were $0.3 million, of which $0.1 million was expensed and $0.2 million was capitalized as the funds are directly attributable to the development of the Company's qualifying assets, respectively. Upon repayment of the outstanding balance owing on this credit facility, $0.3 million was recorded to Other Reserve due to the related party nature of this transaction. In the fourth quarter of 2012, this Credit Facility Agreement was terminated.

Employee Share Purchase Loan
The Company loaned $50,000 to a senior employee to facilitate the exercise of stock options to purchase 250,000 Class "A" common shares. The loan bears interest at 3.0% per annum, secured by the common shares and was repaid in full December 10, 2013. The Company classified the loan as other receivable under financial assets.

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

For the year ended December 31,		2013		2012
Directors' fees	$	750	$	681
Salaries and allowances		1,491		1,710
Share-based payments		9,428		12,282
Consulting fees		900		900
Performance related incentive payments		-		13,208
	$	12,569	$	28,781

20. Operating lease arrangements

Payments recognised as an expense

For the year ended December 31,		2013		2012
Minimum lease payments	$	2,343	$	2,056

21. Commitments and contingencies

As at December 31, 2013, the Company's commitments are as follows:

		Due within the next 12 months		Due in the next 2 to 5 years		Over 5 years
Drilling, other equipment and contracts	$	4,875	$	3,145	$	-
Lease rentals[1]		185		4,826		5,956
Office leases		2,698		10,476		595
	$	7,758	$	18,447	$	6,551

1. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

Following suspension of construction at the Company's West Ells SAGD project, many suppliers have placed builders' liens on the property to secure past due and unpaid invoices. The Company has been served with 71 lawsuits claiming payment for unpaid invoices for a total aggregate value of $94.0 million. Through the normal course of business, the Company has recorded the unpaid invoices in trade and other payables. The Company has raised equity funds disclosed in Note 12 and Note 23 and continues to pursue additional financing to enable it to meet these obligations and clear up these issues and continue developing its business (Note 2). The Company, with unanimous agreement from current lien holders and litigants, reached a collective forbearance agreement with all lien holders and litigants until February 28, 2014. Subsequent to December 31, 2013, the Company reached a collective agreement with all lien holders and litigants to extend the forbearance period to May 31, 2014.

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 four million one hundred thirty-two thousand two hundred thirty-two (4,132,232) shares of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for CDN $40 million plus interest at 15% per annum since the date of the Share Subscription Agreement. The Company's Statement of Defence is due to be filed on April 2, 2014. Management considers the Action to be unfounded. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2013 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. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.

22. Supplemental cash flow disclosures

Non-cash transactions

For the year ended December 31, 2013, the Company had the following non-cash transactions:

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

For the year ended December 31, 2012, the Company had the following non-cash transactions:

- the settlement of the advisory fee through the issuance of 13,566,395 common shares for $8.4 million (Note 19.1);
- the share repurchase obligation has been reclassified to share capital for $0.3 million (Note 12); and
- capitalized general and administrative costs including share-based payments and finance costs (Notes 7 and 8).

Supplemental cash flow disclosures

For the year ended December 31,		2013		2012
Cash provided by (used in):				
Trade and other receivables	$	861	$	1,428
Prepaids and deposits		45		97
Trade and other payables		51,293		35,456
	$	52,199	$	36,981
Changes in non-cash working capital relating to:				
Operating activities				
Trade and other receivables	$	404	$	1,557
Prepaid expenses and deposits		45		97
Trade and other payables		4,257		(73)
		4,706		1,581
Investing activities				
Exploration and evaluation		-		39,966
Property, plant and equipment		46,171		-
		46,171		39,966
Financing activities				
Share issue costs, IPO costs and finance costs		1,322		(4,566)
	$	52,199	$	36,981

Reconciliation of certain amounts disclosed in the Consolidated Statements of Cash Flows:

Reconciliation of:				
Exploration and evaluation assets	$	12,745	$	269,348
Changes in non-cash working capital		-		(39,966)
Payments for exploration and evaluation assets		12,745		229,382
Reconciliation of:				
Property, plant and equipment	$	316,679	$	740
Changes in non-cash working capital		(46,171)		-
Payments for property, plant and equipment		270,508		740
Reconciliation of:				
Share issue costs, IPO costs and finance costs		4,139		22,562
Changes in non-cash working capital		(1,322)		4,566
Payments for share issue costs, IPO costs and finance costs	$	2,817	$	27,128

23. Subsequent event

Subsequent to December 31, 2013, the Company completed additional closings of equity private placements totalling 181,242,193 Units at a price of HK$1.70 per Unit (approximately C$0.24 per Unit) for gross proceeds of HK$308,111,728 or approximately C$43.7 million. Each Unit is comprised of one Class "A" common share and one-third of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of HK $1.88 per common share (approximately C$0.26 per common share) for a period of 24 months following the closing date. Total subscriber's warrants from the additional closings were 60,414,064. After payment of a 3% cash fee of HK$4,620,000 (approximately C$0.651 million) to the finder of 90,588,235 Units, the total net proceeds from the additional closings since December 31, 2013, was HK$ 303,491,728 or approximately C$43.1 million. In addition, 72,496,877 warrants were given to finders in relation to these closings. A total of 132,910,941 warrants were distributed as part of these closings.

Subsequent to December 31, 2013, the Company issued a notice of special general meeting to the shareholders to be held on April 15, 2014, in Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments, as an ordinary resolution giving the Board a general and unconditional mandate to allot, issue or otherwise deal with unissued Shares up to a maximum of twenty percent (20%) of the aggregate issued and outstanding share capital of the Corporation until the next annual meeting.

24. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 26, 2014.

Appendix to the Consolidated Financial Statements

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in these Consolidated Financial Statements is as follows:

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

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

		2013		2012
Non-current assets				
Property, plant and equipment	$	634,670	$	327,968
Exploration and evaluation assets		376,912		366,625
Amounts due from subsidiary		825		293
Investment in subsidiary		-		60
		1,012,407		694,946
Current assets				
Other receivables		1,295		2,147
Prepaids and deposits		656		691
Cash and cash equivalents		15,847		282,230
		17,798		285,068
Current liabilities				
Trade and other payables		120,095		68,782
Provisions for decommissioning obligations		872		795
Share purchase warrants		3,832		-
Amount due to subsidiary		339		-
		125,138		69,577
Net current assets (liabilities)		(107,340)		215,491
Total assets less current liabilities		905,067		910,437
Non-current liabilities				
Provisions for decommissioning obligations		23,597		39,034
Net assets	$	881,470	$	871,403
Capital and reserves				
Share capital	$	1,024,423	$	991,798
Reserve for share-based compensation		57,447		47,395
Deficit		(200,400)		(167,790)
	$	881,470	$	871,403

A2. Directors' emoluments and other staff costs

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

For the years ended December 31,		2013		2012
Directors' emoluments				
Directors' fees	$	750	$	681
Salaries and allowances		900		900
Contribution to retirement benefit scheme		-		
Share-based payments		6,803		7,832
Performance related incentive payments		-		12,000
		8,453		21,413
Other staff costs				
Salaries and other benefits		13,492		12,475
Contribution to retirement benefit scheme		385		248
Share-based payments		6,499		12,613
Performance related incentive payments		-		2,986
		20,376		28,322
Total staff costs, including directors' emoluments		28,829		49,735
Less: bonus included with expensed portion of IPO costs		-		5,000
Less: staff costs capitalized to qualifying assets		12,729		15,012
	$	16,100	$	29,723

Details of the Directors' emoluments are as follows:

For the year ended December 31, 2013												
Name of Director		Directors' fees		Salaries and allowances		Contribution to retirement benefits scheme		Share-based compensation		Performance related incentive payments		Total
Michael Hibberd	$	86	$	450	$	-	$	1,944	$	-	$	2,480
Songning Shen		86		450		-		1,944		-		2,480
Tseung Hok Ming		61		-		-		2,390		-		2,451
Tingan Liu		62		-		-		-		-		62
Hoatian Li		62		-		-		78		-		140
Raymond Fong		68		-		-		72		-		140
Wazir (Mike) Seth		82		-		-		72		-		154
Greg Turnbull		67		-		-		121		-		188
Robert Herdman		92		-		-		91		-		183
Gerald Stevenson		84		-		-		91		-		175
	$	750	$	900	$	-	$	6,803	$	-	$	8,453

For the year ended December 31, 2012						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Michael Hibberd	$ 82	$ 450	$ -	$ 2,526	$ 3,500	$ 6,558
Songning Shen	82	450	-	2,526	3,500	6,558
Tseung Hok Ming	67	-	-	2,358	4,600	7,025
Tingan Liu	-	-	-	-	-	-
Hoatian Li	61	-	-	78	-	139
Raymond Fong	76	-	-	36	75	187
Wazir (Mike) Seth	75	-	-	36	75	186
Greg Turnbull	70	-	-	86	100	256
Robert Herdman	89	-	-	91	75	255
Gerald Stevenson	79	-	-	91	75	245
	$ 681	$ 900	$ -	$ 7,828	$ 12,000	$ 21,409

A3. Five highest paid individuals

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

For the years ended December 31,	2013	2012
HK$6,000,001 to HK$6,500,000	1	-
HK$6,500,001 to HK$7,000,000	-	-
> HK$7,000,000	4	5

For the year ended December 31, 2013, respectively, the conversion factor used in the above table is 1C$ = 7.55HK$ (year ended December 31, 2012 – 1C$ = 7.762 HK$)

The five highest paid individuals includes three directors of the Company and two officers of the Company for the year ended December 31, 2013 (year ended December 31, 2012 – three directors and two officers). Since the directors' emoluments are disclosed above, the compensation of the remaining officers for the Company is as follows:

For the years ended December 31,	2013	2012
Salaries and other benefits	$ 721	$ 712
Contributions to retirement benefits scheme	5	4
Share-based payments	2,083	2,251
Performance related incentive payments	-	560
	$ 2,809	$ 3,527

A4. Senior management remuneration by band

The emoluments fell within the following bands:

For the years ended December 31,	2013	2012
HK$ nil to HK$1,000,000	-	-
HK$1,000,001 to HK$1,500,000	2	-
HK$1,500,001 to HK$2,000,000	-	1
HK$2,000,001 to HK$2,500,000	-	-
HK$2,500,001 to HK$3,000,000	1	-
HK$3,000,001 to HK$3,500,000	-	-
HK$3,500,001 to HK$4,000,000	-	1
HK$4,000,001 to HK$4,500,000	-	2
HK$4,500,001 to HK$5,000,000	1	-
HK$5,000,001 to HK$5,500,000	-	-
HK$5,500,001 to HK$6,000,000	-	-
HK$6,000,001 to HK$6,500,000	1	-
HK$6,500,001 to HK$7,000,000	-	1
> HK$7,000,000	3	5

For the year ended December 31, 2013, respectively, the conversion factor used in the above table is 1C$ = 7.55HK$ (year ended December 31, 2012 – 1C$ = 7.762 HK$)

The table above includes the remuneration for the executive directors and executive officers of the Company. As at December 31, 2013, $0.1 million (2012 - $0.04 million) was the total payable to two members (2012 - two members) of senior management and included in trade and other payables.