SUNSHINE OILSANDS LTD.

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

(HKEx: 2012, TSX: SUO)

Annual Report **2013**

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SUMMARY OF AUDITED FINANCIAL FIGURES

As at and for the year ended December 31	**2013**	2012	2011	2010	2009
	($000s)	($000s)	($000s)	($000s)	($000s)
Cash and cash equivalents	**15,854**	282,231	84,957	41,540	576
Exploration and evaluation assets	**376,912**	366,668	382,277	197,836	134,623
Property, plant and equipment	**634,672**	327,971	719	474	302
Total liabilities	**148,415**	108,650	327,127	20,602	7,850
Shareholders' equity	**880,973**	871,076	148,587	222,433	127,965
Net loss	**32,780**	61,728	67,392	9,857	2,848
Net loss per share ($ per basic and diluted share)	**0.01**	0.02	0.05	0.01	0.06

Message to Shareholders

Michael J. Hibberd
(Co-Chairman of the Board of Directors)

Songning Shen
(Co-Chairman of the Board of Directors)

David Sealock
(Interim President & CEO)

2013 OVERVIEW

Sunshine continued to achieve significant milestones in 2013. While our near-term focus is on securing financing to complete our first 10,000 bbl/d commercial Steam-assisted Gravity Drainage ("SAGD") project at West Ells, our ongoing objective is to lay the groundwork for delivering multi-phase expansions of production in our key project areas. 2013 was a year in which high quality construction activities progressed with confirmation that technical planning and execution decisions were managed very well by our experienced field operations and drilling and completions teams. 2013 also saw a strategic joint venture secured for development of our Muskwa and Godin area clastics assets and regulatory approval was obtained for a 10,000 bbl/d SAGD project in our Thickwood area. On the capital raising side, in addition to raising HK$246.3 million (CAD$ 33.3 million) in gross equity proceeds from options exercises and equity placements in 2013, a further HK$308.1 million (CAD$43.7 million) of gross equity proceeds has been closed since January 1, 2014. Our technical execution at West Ells, particularly in sub-surface activities related to pad drilling and completions, is a notable area of achievement in 2013. Although execution quality has been at a very high level, we experienced serious deficiencies in budget estimation and construction change control. We have made changes to ensure that go-forward budget and capital management requirements are addressed in a rigorous manner.

Reserves & Resources

Reserves and resources evaluations, dated December 31, 2013 have been completed by independent evaluators, GLJ Petroleum Consultants (GLJ) and DeGolyer and MacNaughton Canada Limited (DMCL). The following tables summarize the overall reserves information as well as contingent resource volumes.

Reserves, Effective December 31, 2013

	Reserves					
	Proved		Proved Plus Probable		Proved Plus Probable Plus Possible	
	Gross (MMbbls)	PV10% ($MM)	Gross (MMbbls)	PV10% ($MM)	Gross (MMbbls)	PV10% ($MM)
Total	79	249	444	461	579	987

Source: GLJ Report and D&M Report dated December 31, 2013

Compared to 2012 reserves volumes, there were no major change in the assignment of reserve volumes by the independent reserves evaluators. Properties with assigned reserves include the West Ells, Thickwood and Legend Lake areas. The West Ells and Thickwood areas had no exploratory drilling conducted in 2013 and as such, assigned reserves volumes remained virtually unchanged from the numbers reported in 2012. Exploration drilling was conducted in the Legend area early in 2013. Detailed technical data examination resulted in an adjustment in the "possible" reserves category due to identification of a slight thinning of Legend Lake reservoir thickness.

In connection with PV10% values, assumed price deck reductions to a starting point of WTI US$90 from WTI US$100 resulted in a significant decrease in assigned values in 2013 compared to 2012.

	Contingent Resources Best Estimate Gross (MMbbls)
Economic Contingent Resources	
Total Clastics	2,749
Total Carbonates	975
Combined Total	**3,724**
Sub-Economic Contingent Resources	
Grosmont Carbonates[(1)]	371
Total Contingent Resources	**4,095**

Source: GLJ Report and D&M Report dated December 31, 2013

(1) GLJ considers the estimated Contingent Resources of 371 MMbbls (Best Estimate) to be sub-economic based on a 10% discount factor. At a 7% discount factor, these resources would be considered to be economic.

2013 Economic Contingent Resource recognition volumes were affected by price deck reductions in the Harper carbonates, which were considered economic at a 7% discount factor using the 2013 revised prices. The sale of 50% of the Muskwa and Godin area clastics resources through an announced joint venture transaction, along with technical revisions in the Pelican Lake area holdings, accounted for the remaining material adjustments in Contingent Resources estimated in 2013 compared to 2012. As with the reserves values, values assigned to Sunshine's Contingent Resources were reduced due to assumed price deck reductions used in the evaluation reports. The starting point pricing assumption of WTI US$90, down from WTI US$100, resulted in a significant decrease in assigned PV10% values in 2013 compared to 2012.

In connection with pricing assumptions and costs used by the independent evaluators, the following is worth noting:

WTI has averaged approximately US$98 for the first 3 months of 2014, well above the US$90 starting point used in the reserve and resource evaluation reports; the Canadian dollar is at $0.91 US but it is assumed to be a much stronger $0.96 US in the reserve and resource evaluation reports; and potential cost savings from rail transport alternatives are not considered in the reserve and resource evaluation reports. Sunshine is actively investigating the movement of crude by rail to access Maya pricing, which trades at a much lower discount to WTI than WCS pricing. It is our expectation that in connection with marketing arrangements alone, moving production with costs associated with railcar transportation and Maya oil pricing, will result in recognition of significant PV10% value increases.

WCS refers to Western Canadian Select, a heavy blended crude oil composed mostly of bitumens blended with synthetic crudes and diluents sold at Hardisty, Alberta. Maya refers to a benchmark heavy crude blend produced in Mexico with similar properties to WCS, with markets in the Gulf Coast.

Capital Raising Activities

From December 1, 2013 to current date, Sunshine has closed non-brokered private placements for aggregate gross proceeds totaling HK$489.7 million (approximately CAD$68.7 million, 288,042,193 units at a price of HK$1.70 per unit). Each unit consisted of one Class "A" common share and one-third of one purchase warrant. Each of the 96,014,064 issued purchase warrants has an exercise price of HK$1.88 (approximately $0.26) and is exercisable for two years from the date of issuance. Sunshine granted 115,216,877 fee warrants to certain finders in connection with the above financing. Each fee warrant is exercisable at HK$1.88 (approximately CAD$0.26) for two years from the date of issuance. Sunshine also paid HK$10.1 million (approximately CAD$1.4 million) as 3% finder fees.

West Ells Commercial Project

Construction of Phases 1 and 2 of Sunshine's West Ells SAGD 10,000 barrel per day project continues to be suspended as the Corporation continues with initiatives to secure additional funding. Suspension of construction occurred during the third quarter, effective August 18, 2013. Sunshine intends to continue to develop the West Ells project in two phases, Phase 1 (5,000 bbls/d) and Phase 2 (5,000 bbls/d), with Phase 1 providing the supporting infrastructure for the Phase 2 major process equipment.

Message to Shareholders

To date, Sunshine has completed:

- Phase 1 drilling and completion of eight well pairs;
- Phase 2 drilling of eight well pairs;
- Phase 1 facility construction at 81% complete, with an estimated 4 months to finish;
- Phase 2 facility construction at 22% complete, with an estimated 5 months to finish;

Capital expenditures consumed our cash resources in 2013 and resulted in the Board of Directors making a decision to put our West Ells project into suspension. The suspension means that until construction activities re-commence, Sunshine has to contend with delays in equipment delivery, extended service costs and comprehensive planning dialogues with services providers. With our focus on achieving high quality completion of construction activities under more disciplined cost estimation and execution protocols, changes have been made to mitigate deficiencies in performance and leadership to ensure that completion financing can be committed with confidence in our cost estimates and in our coordination and management of construction site activities and personnel. It is expected that our West Ells project will proceed to completion with a high degree of focus on cost and quality control. Our current timing estimate, based on 81% completion of Phase 1 facility construction, is that re-commencement of Phase 1 construction can achieve commissioning, start-up and first steam in a four to five month time period. The second well pad would then be commissioned and first steam for Phase 2 could be initiated shortly thereafter.

Our confidence in addressing requirements to complete West Ells has been re-fortified through an extensive re-examination of incurred capital costs for the West Ells Project, Phases 1 and 2 and we are fully engaged in a review and assessment of estimated costs associated with suspending and then restarting engineering, procurement and construction activities. Costs for recommencing and completing construction, commissioning & start up, costs for operations and the date for first steam will be finalized and released when additional funding is secured to support a full West Ells development plan.

Thickwood and Legend Project Areas

The Thickwood and Legend projects are each planned for first phase delivery of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend regulatory approval is expected in the first half of 2014.

Renergy Joint Venture

Sunshine is pleased that the opportunity in its Muskwa and Godin clastics assets has been recognized by Renergy Petroleum (Canada) Co. Ltd. ("Renergy") through a significant agreement to provide both capital and technology through a joint venture structure. Under the terms of the joint venture agreement, Renergy is to operate the assets. In return for a 50% working interest, Renergy has agreed to fund 100% of initial joint operations conducted on the lands up to a maximum of CAD $250 million, which funding shall be deployed at the discretion of Renergy, as operator, until the earlier of the point when (i) the sum contributed equals the commitment cap of CAD $250 million or (ii) average daily production from the lands over any 20 consecutive days period equals or exceeds 5,000 barrels per day. Thereafter, joint venture contributions will be in proportion to the working interest held, unless Sunshine elects to be carried under the terms of the joint venture agreement.

Health, Safety and Community

Everyone associated with our field activities supports and understands the importance of our Health, Safety and Environment practices. Our approach to sustainable resource development works in tandem with our Health, Safety and Environment practices and these practices form the basis for our physical presence in communities in which we work. It also forms the basis for ensuring that trusted long-term relationships are protected in communities that should expect to receive respect as well as economic and social benefits from our activities.

Message to Shareholders

With a daily average of 400 workers active from January to August 2013, the West Ells project logged over 1 million hours of work, with no lost time injuries in 2013. This is a standard we want to maintain.

Summary of Financial Figures

For the fourth quarter of 2013, the Corporation had a net loss of $7.5 million compared to $9.2 million for the same period in 2012, representing a net loss per share of $0.00 for both periods. For the year ended December 31, 2013, the Corporation had a net loss of $32.8 million compared to $61.7 million in 2012, representing a net loss per share for each respective year of $0.01 and $0.02.

As at December 31, the Corporation notes the following selected balance sheet figures:

	2013 ($000s)	2012 ($000s)
Cash and cash equivalents	15,854	282,231
Exploration and evaluation assets	376,912	366,668
Property and equipment	634,672	327,971
Total liabilities	148,415	108,650
Shareholders' equity	880,973	871,076

2014 Outlook

The Corporation's plan for 2014 is to secure financing to re-commence West Ells construction and to ensure continuation of safe, high quality operational performance. We are committed to proceeding based on properly budgeted and monitored protocols and we intend to continue to look for opportunities for joint ventures to reduce our capital commitments and to accelerate activities aimed at increasing production. Once financing is secured, we intend to target achievement of first steam at West Ells later in the year. This will establish our own key marker line for confirming the achievability of increases in value for our shareholders in a deltaic clastics depositional environment.

Acknowledgements

We would like to thank our shareholders, new and old, for their continued support and patience. We would also like to acknowledge and thank our Board of Directors for their unwavering support for taking decisive actions to address challenges we encountered in 2013. We intend to ensure that the loyalty and hard work of our staff, along with the support shown by our vendors and contractors, results in achievement of a significant goal: "getting back to work on West Ells".

Other Information

The following other information is disclosed in the Corporation's Annual Information Form:

Refer to "Statement of Reserves Data and Other Oil and Gas information" beginning on page 25 of the Annual Information Form for further information about the Corporation's reserve and resource data.

Refer to "Other Oil and Gas Information" beginning on page 33 of the Annual Information Form for further information about capital investments made by the Corporation on its properties for the year ended December 31, 2013.

Refer to "Material Contracts" on page 64 for further information on material contracts.

This Annual Information Form is published on the websites of SEDAR (www.sedar.com), the HKEX (www.hkexnews.hk) and the Corporation's website at www.sunshineoilsands.com.

Directors and Senior Management

CO-CHAIRMEN EXECUTIVE DIRECTORS

Mr. Michael J. Hibberd, aged 58, is our Co-Chairman and an Executive Director. Mr. Hibberd is a founder of our Corporation and held the title of Chairman and Co-Chief Executive Officer from August 7, 2007 to October 6, 2008. Since May 9, 2007, he has been an Executive Director and since October 6, 2008 he has been Co-Chairman of our Corporation, a title which he shares with Mr. Songning Shen. Mr. Hibberd has more than 25 years of experience in the oil and gas industry and has extensive international energy project planning and capital markets experience. He is currently president and chief executive officer of MJH Services Inc., a company founded in 1995. Mr. Hibberd currently holds directorships in the following public companies: Heritage Oil Plc, Heritage Oil Corporation, Canacol Energy Ltd., Greenfields Petroleum Corporation, Montana Exploration Corp., PetroFrontier Corp., and PanOrient Energy Corp., all publicly traded entities listed on the TSX or the TSX Venture Exchange. Heritage Oil Plc, is also listed on the London Stock Exchange. Mr. Hibberd was previously a director of the following companies: Deer Creek Energy, Zapata Energy Corporation, Iteration Energy Ltd., Avalite Inc., Sagres Energy Inc., Rally Energy Corp., Skope Energy Inc. and Challenger Energy Corp.

Mr. Hibberd obtained his bachelor of arts degree in 1976 and his Master of Business Administration degree in 1978 from the University of Toronto. He obtained his bachelor of laws degree from University of Western Ontario in 1981, was called to the bar in 1983 and is a member of The Law Society of Upper Canada.

Mr. Songning Shen, aged 48, is our Co-Chairman and an Executive Director. Mr. Shen is a founder of our Corporation and held the title of President from February 22, 2007 to October 6, 2008 and Co-Chief Executive Officer from August 7, 2007 to October 6, 2008. Since February 22, 2007 he has been an Executive Director and since October 6, 2008 he has been Co-Chairman of our Corporation, a title which he shares with Mr. Hibberd. Mr. Shen is president and chief executive officer of 1226591 Alberta Inc, a company established in 2006. Mr. Shen has over 23 years of experience in oil and gas industry. From 2006 to 2007, Mr. Shen worked at Koch Exploration Canada LP as a senior geology consultant. Mr. Shen obtained his bachelor of science degree from Tongji University in 1986 and his master of science degree from Norwegian University of Science and Technology in 1998. Mr. Shen is a professional geologist registered in Alberta, Canada.

NON-EXECUTIVE DIRECTORS (“NEDs”)

Mr. Hok Ming Tseung, aged 52, is a non-executive Director appointed by the Board on March 2, 2010 as a nominee selected by Orient International Petroleum & Chemical Limited and Orient International Resources Group Limited, each of which he is a director. Mr. Tseung, through direct and indirect shareholdings, is our largest shareholder. The Board resolved to approve the appointment of a nominee by Orient International Petroleum & Chemical Limited on August 13, 2009. Mr. Tseung is also vice chairman of the Hong Kong Financial Service Institute and the Hong Kong China Education Fund. Mr. Tseung was appointed as a director of the second board of directors of the China Foreign Affairs University on March 11, 2005. Mr. Tseung is currently a director of Dongwu Cement International Ltd. and Jiangsu Xinmin Textile Science & Technology Co., Ltd., which are publicly traded entities listed on the Hong Kong Stock Exchange (“HKEx”) and Shenzhen Stock Exchange (“SSE”) respectively. Mr. Tseung obtained a postgraduate degree in international economics from the Chinese Academy of Social Sciences in 1998.

Mr. Tingan Liu, aged 52, is a non-executive Director. He was appointed by the Board as a Director on February 1, 2011 as a nominee selected by China Life pursuant to the terms of the subscription agreement for the Class B Shares, the contractual right of which is not effective following the Listing. Mr. Liu is the deputy chairman and president of China Life Insurance (Overseas) Company Limited. Mr. Liu also holds a number of positions of responsibility in various professional and industry bodies, including serving as a council member of the Financial Services Development Council of the Hong Kong S.A.R., as a member of the Listing Committee of the Stock Exchange of Hong Kong Limited, as a member of the Insurance Advisory Committee of the Government of Hong Kong S.A.R., as an executive director of the Hong Kong Chinese Enterprises Association and as a council member and fellow of the Hong Kong Institute of Directors. Mr. Liu received the Director of the Year Award, organised by The Hong Kong Institute of Directors, in 2009 in the category of “Private Company Executive Directors”, he was also a winner of “China Top 10 Financial and Intelligent Persons” in 2009 and the “Capital Leaders of Excellence” in 2013. Mr. Liu obtained a masters degree in Economics from Renmin University of China in 1988 and completed a training programme at the University of Oxford in 1991. He is a senior economist, a fellow of the Institute of Chartered Secretaries and Administrators and a fellow of the Hong Kong Institute of Chartered Secretaries.

Directors and Senior Management

Mr. Haotian Li, aged 42, is a non-executive Director appointed by the Board on February 14, 2011 as nominee selected by BOCGI pursuant to the terms of the subscription agreement for the investment by Charter Globe Limited. Mr. Li has been appointed as our authorised representative pursuant to Rules 2.11 and 3.05 of the Listing Rules. Mr. Li is currently the deputy chief executive officer of BOCGI and chairman of BOCGI's investment committee. He is also responsible for the strategic investment department, the non-performing asset investments department and the funds investment management department, with the total investments under management of these divisions in excess of HK$30 billion. Since June 2010, Mr. Li has also been a director of Bank of China Investment Limited and a director of BOCGI Zheshang Investment Fund Management (Zhe Jiang) Co., Ltd. the fund management company of ZheShang PE Fund since 2009, a RMB5 billion fund that he was instrumental in establishing and successfully launching. Prior to joining BOCGI, Mr. Li was with the corporate banking department at the Bank of China headquarters (oil and gas sector coverage) from 1999 to 2008 and was actively involved in a significant number of large investments and financings. Mr. Li obtained a masters of business administration degree from the University of Denver in 1998 and a bachelor of engineering degree from Tsinghua University in 1995.

Mr. Gregory G. Turnbull, aged 59, is a non-executive Director and was Chairman of the Compensation Committee and the Corporate Governance Committee until April 1, 2012. He was appointed as a Director on August 24, 2007. Mr. Turnbull is a senior partner of the Calgary office of McCarthy Tétrault LLP, which he joined in July 2002 following his previous position as partner of Donahue Ernst and Young LLP. Mr. Turnbull has approximately 16 years of experience in the oil and gas industry. Mr. Turnbull is currently a director of Crescent Point Energy Corp., Storm Resources Ltd., Heritage Oil Plc, Heritage Oil Corporation, Marquee Energy Ltd. and Hyperion Exploration Corp., all publicly traded entities listed on the London Stock Exchange, the TSX or the TSX Venture Exchange. Mr. Turnbull is also currently a director of a number of private companies. Mr. Turnbull obtained a bachelor of arts from Queen's University in 1976 and a bachelor of laws from the University of Toronto in 1979, and was appointed as a Queen's Counsel in 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDs")

Mr. Raymond S. Fong, aged 67, is an independent non-executive Director appointed on May 9, 2007. Mr. Fong has over 23 years of experience in the oil and gas industry. Mr. Fong is currently a Director of Palinda International Group Limited of Hong Kong. He held previous directorships with China Coal Corporation, Abenteuer Resources Ltd., Stealth Ventures Ltd., Zapata Capital Inc., Ultra Capital Inc. and United Rayore Gas Ltd. Mr. Fong obtained a Bachelor of Science degree from the Taiwan Cheng Kung University in 1970, and a master of science degree from the Tennessee Technological University in 1971. Mr. Fong is a registered professional engineer in Ontario and Alberta, Canada.

Mr. Robert J. Herdman, aged 62, is an independent non-executive Director appointed on July 18, 2011. Mr. Herdman has over 37 years of experience in the oil and gas industry. Mr. Herdman is a fellow chartered accountant qualified in Alberta, Canada. He joined PricewaterhouseCoopers LLP in 1976 and worked as a partner from 1989 to 2010 in the Calgary office, serving the firm's Calgary based public clients including service to companies operating in both the mining and thermal recovery of oil sands. Following a 34 year career with PriceWaterhouseCoopers LLP, Mr. Herdman retired from practice in 2010. He currently serves on the boards of directors of Blackline GPS Corp., Chinook Energy Inc., and Black Diamond Group, all public companies listed on the TSX or the TSX Venture Exchange, and he is also a board member of Western Financial Group Inc., which voluntarily delisted in 2013 as it no longer has publicly traded securities. He has previously served as a director of TriOil Resources. He was a member of the governors of the Glenbow Museum. He completed a six year term on the board of governors of the Chartered Accountants Education Foundation and has served on a number of other committees overseeing the practice of accounting in Alberta and as a director for a number of non-profit making organisations. Mr. Herdman graduated with a bachelor of education degree from the University of Calgary in 1974.

Directors and Senior Management

Mr. Wazir C. Seth, aged 73, is an independent non-executive Director and Chairman of the Reserves Committee. He was appointed as a director on September 1, 2008. Mr. Seth has over 42 years of experience in the oil and natural gas industry. He is currently president of Seth Consultants Ltd. From January 1968 to June 2006 he was employed by McDaniel & Associates Consultants Ltd., and from July 1989 to June 2007, he served as its chairman, president and managing director. Mr. Seth is currently on the board of directors of Connacher Oil & Gas Limited, Corridor Resources Inc. and Lateral Capital Corp., all public companies listed on the TSX or the TSX Venture Exchange. He is also the founder and director of Energy Navigator Inc., a private software development firm servicing the petroleum industry. Mr. Seth has previously served as a director of Open Range Energy Corp., Redcliffe Exploration Inc., Reliable Energy Ltd., Torquay Oil Corp.,Triton Energy Corp and Enerplus Corporation. Mr. Seth graduated from the University of British Columbia in 1966 with a bachelor of applied science degree in mechanical engineering and is a registered professional engineer in the province of Alberta.

Mr. Gerald F. Stevenson, aged 70, is an independent non-executive Director appointed on July 15, 2011. Mr. Stevenson has over 35 years of experience in the oil and gas industry. Mr. Stevenson was head of oil and gas acquisitions and divestitures for CIBC World Markets Inc. in Calgary, Alberta from January 2006 to April 2011 where he was responsible for selling oil and gas companies or individual oil and gas properties, and was involved in M&A and financing activities. Mr. Stevenson also has extensive experience in oil and gas operations, including senior management positions and international experience, including two years in Jakarta, Indonesia. Mr. Stevenson obtained a bachelor of engineering degree in mechanical engineering in 1965 and a masters of science degree in mechanical engineering in 1967 from the University of Saskatchewan in Saskatoon. Mr. Stevenson is a professional engineer registered in province of Alberta.

SENIOR MANAGEMENT

Mr. David Owen Sealock, aged 54, has been our Interim President and CEO since December 10, 2013. Mr. Sealock was our Executive Vice President, Corporate Operations from June, 2010 to December 2013 and our Vice President, Corporate Operations from June 2008 to June 2010. Mr. Sealock was educated in business, engineering and information technology and has more than 26 years of experience in the oil and gas industry. He has extensive experience in all aspects of development and execution of business strategies and significant experience in Operations, Engineering, Procurement and Construction Management with previous positions at MegaWest Energy, Total E&P Canada, Deer Creek Energy, CNRL, Petrovera Resources and Chevron Canada with international experience in South America and the Middle East, serving in a variety of executive, management, operational and investor and public relation roles. Mr. Sealock has previous experience as a Director for Private and Not for Profit organizations and he holds a Bachelor's Degree in Business Management and is a Registered Engineering Technologist.

Mr. Dong Liu, aged 45, was appointed as the Senior Vice President in Hong Kong and Canada of the Corporation on May 17, 2012. Before he joined Sunshine Oilsands Ltd., he had been with Orient International for over 7 years, where he had been the Vice President of Orient Financial Holdings Limited since 2006 and responsible for investor relations, equity markets, and capital transactions. Mr. Liu has over eight years of experience in investor relations, equity and capital markets, and merger & acquisition transactions.

Mr. Al Stark, aged 48, is the Corporation's Treasurer and has over 20 years of financial and accounting experience. Effective April 1, 2012 the Board of Directors appointed Mr. Stark to the role of Treasurer. Previously, Mr. Stark was the Corporation's Controller since February 2009. Mr. Stark previously held roles of Controller and Finance Director of Rally Energy Ltd. from May 2006 to January 2009, and held various roles including Controller and VP Finance of Ziff Energy Group from November, 1998 to May, 2006 and was the Operations Accountant of Renata Resources Inc. from June, 1997 to September, 1998. Mr. Stark is a member of the Certified General Accountants Association of Alberta and holds a Bachelor of Commerce degree from the University of Saskatchewan.

Mr. Chris Crawford, aged 29, is the Corporation's Controller, has previously held controller positions with public companies including PetroFrontier Corp. and Rodinia Oil Corp. In these roles, he gained in-depth knowledge in corporate structuring, treasury, financial management and financial reporting. Mr. Crawford previously held a senior accountant role with MNP LLP, where he specialized in assurance engagements for both private and public oil and gas companies. Mr. Crawford is a member of the Institute of Chartered Accountants of Alberta and holds a Bachelor of Commerce degree from the University of Alberta.

Dr. Songbo Cong, aged 51, is the Corporation's Vice President, Special Projects, and was a director of the Corporation from May, 2007 to December, 2007 prior to his current appointment. Dr. Cong has more than 20 years of experience in resource and project management, process engineering, instrumentation and control, modeling and simulation for the oil and gas industry and refineries. From January, 2005 to December, 2007, Dr. Cong served as a principal engineer at Honeywell International Inc. focusing on project control, SAGD and refinery process operations. From June, 2000 to December,2007, he served as group manager and advisor for Aspentech (Hyprotech). Dr. Cong also worked for Matrikon Inc. and Sinopec Inc. as an advanced application engineer.

Corporate Governance Report

The Board of Directors ("the Board") of the Corporation is pleased to present this Corporate Governance Report for the year ended December 31, 2013. The Corporation and the Board are committed to maintaining high standards of corporate governance. The Corporation and the Board recognize that high quality corporate governance practices are fundamental to the effective and transparent operation of a company and its ability to protect the rights of its shareholders and enhance shareholder value.

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

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

The Corporation has, throughout the year ended December 31, 2013, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards. The Corporation's current practices are reviewed and updated regularly to enable high quality corporate governance.

The Corporation has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 13.13 of the Listing Rules and the Corporation considers that all of the Independent Non-Executive Directors are independent. The Board is of the view that all the independent Non-Executive Directors are independent and have appropriate professional qualifications or accounting or related financial management expertise in accordance with Rule 3.10 of the Listing Rules.

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

The Board consists of the following members:

Mr. Michael J. Hibberd	Co-Chairman Executive Director ("ED")
Mr. Songning Shen	Co-Chairman Executive Director
Mr. Hok Ming Tseung	Non-Executive Director ("NED")
Mr. Tingan Liu	Non-Executive Director
Mr. Haotian Li	Non-Executive Director
Mr. Gregory G. Turnbull	Non-Executive Director
Mr. Raymond S. Fong	Independent Non-Executive Director ("INED")
Mr. Robert J. Herdman	Independent Non-Executive Director
Mr. Wazir C. (Mike) Seth	Independent Non-Executive Director
Mr. Gerald F. Stevenson	Independent Non-Executive Director

The biographical details of each director and their respective responsibilities and dates of appointment are included in the "Directors and Senior Management" of this Annual Report.

Practices and Conduct of Meetings

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

Minutes of the Board meetings have been kept by the Joint Company Secretaries. Draft minutes are circulated to directors for comment within a reasonable time after each meeting.

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

Appointment and Election of Directors

The Corporation uses a formal and transparent procedure for the identification of nominees for director and recommendation to the Board, which is led by the corporate governance committee.

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

Each of the NEDs and INEDs was elected on May 7, 2013, subject to re-election. Details of the appointment and election of directors are set out in the “Directors and Senior Management” section of this Annual Report.

Induction and Ongoing Development

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

COMMITTEES OF THE BOARD

The Board is responsible for leadership of the Corporation, and for promoting the success of the Corporation by directing and overseeing the Corporation’s affairs. In addition, the Board is responsible for overseeing the corporate governance and financial reporting of the Corporation and for reviewing the effectiveness of the Corporation’s system of internal control. To assist it in fulfilling its duties, the Board has established four board committees: the audit committee, the compensation committee, the corporate governance committee and the reserves committee.

Audit Committee

The Board established an audit committee on January 9, 2008 and adopted written terms of reference that set forth the authority and duties of the committee, which have been revised from time to time since then. The audit committee currently consists of three members, namely Mr. Robert Herdman (Chairman of the audit committee) (INED), Mr. Gerald Stevenson (INED) and Mr. Wazir Seth (INED). Mr. Tingan Liu retired from the committee due to independence reasons on May 7, 2013.

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

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

The primary duties of the audit committee are to review and supervise the Corporation's financial reporting process and internal controls, to monitor the integrity of the Corporation's financial statements and financial reporting, and to oversee the audit process.

There were four meetings of the audit committee held during the year ended December 31, 2013. The following is a summary of the work performed by the audit committee during 2013:

- reviewed the scope of the audit of the consolidated financial statements of the Corporation for the year ended December 31, 2013, as well as the fee proposal for such audits;
- reviewed the interim consolidated financial statements for the periods ended March 31, 2013, June 30, 2013 and September 30, 2013, respectively;
- reviewed the assessment of the design and testing of the effectiveness of the Corporation's internal control systems as performed by the external auditor; and
- reported to the Board on the meetings of the Committee.

The audit committee also performed duties including in the appointment or re-appointment of independent external auditors, the review of the Corporation's relationship with its independent external auditors, and the review of its systems for financial reporting, internal controls and risk management, during 2013.

Corporate Governance Committee

The Board established a corporate governance committee on January 9, 2008 and adopted written terms of reference that set forth the authority and duties of the committee, which have been revised from time to time since then. Since April 1, 2012, the Corporate Governance Committee has consisted of seven members, namely Mr. Gerald Stevenson (Chairman), Mr. Michael Hibberd, Mr. Robert Herdman, Mr. Tingan Liu, Mr. Haotian Li, Mr. Raymond Fong and Mr. Wazir Seth. Mr. Gregory Turnbull ceased to be a member and Mr. Liu became a member on May 14, 2013.The Corporate Governance Committee consists of a majority of independent non-executive Directors and is chaired by an independent non-executive Director.

The primary duties of the corporate governance committee in respect of nominations include, but are not limited to, making recommendations to the Board relating to the appointment or re-appointment of directors and senior officers, succession planning for Directors, in particular the Co-Chairmen and the chief executive officer and assessing the independence of independent non-executive Directors. Further, the corporate governance committee has certain duties in respect of other corporate governance matters, including, to consider and review the Corporation's corporate governance principles, practices and processes and to make recommendations to the Board, to review and monitor the training and continuous professional development of Directors and senior management and to review the Corporation's compliance with the Code on Corporate Governance. Going forward, the corporate governance committee will meet at least once a year to discharge its responsibilities.

Compensation Committee

The Corporation established a compensation committee on January 9, 2008 and adopted written terms of reference that set forth the authority and duties of the committee. Since May 14, 2013, the Compensation Committee has consisted of five members, namely Mr. Robert Herdman (Chairman), Mr. Gregory Turnbull, Mr. Hok Ming Tseung, Mr. Raymond Fong and Mr. Gerald Stevenson. The Compensation Committee consists of a majority of independent non-executive Directors and is chaired by an independent non-executive Director.

The primary duties of the compensation committee are to make recommendations to the Board on the Corporation's policy and structure for the remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, as well as to determine the specific remuneration packages of all Executive Directors and certain members of Senior Management.

Reserves Committee

The Corporation has established a reserves committee on January 9, 2008 and adopted written terms of reference that set forth the authority and duties of the committee. The reserves committee consists of four members, namely Mr. Wazir Seth (INED) (Chairman of the reserves committee), Mr. Songning Shen (ED), Mr. Gerald Stevenson (INED) and Mr. Raymond Fong (INED).

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

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

The Reserves Committee also reviews and assesses the Corporation's health, safety and environment processes and controls.

MEETINGS OF THE BOARD AND COMMITTEES OF THE BOARD

There were 22 meetings of the Board held during the year ended December 31, 2013. The following is the attendance record of the Board and committee meetings held during the year, which can be participated either in person or though electronic means of communication:

Table with meetings,

	Board of Directors	Audit Committee	Corporate Governance Committee	Compensation Committee	Reserves Committee
Mr. Michael Hibberd	22/22	—	1/1	—	—
Mr. Songning Shen	22/22	—	—	—	1/1
Mr. Hok Ming Tseung	18/22	—	—	1/1	—
Mr. Tingan Liu	19/22	1/1	1/1	—	—
Mr. Haotian Li	19/22	—	1/1	—	—
Mr. Gregory Turnbull	22/22	—	—	1/1	—
Mr. Raymond Fong	22/22	—	1/1	1/1	1/1
Mr. Robert Herdman	22/22	4/4	1/1	1/1	—
Mr. Wazir Seth	21/22	4/4	1/1	—	1/1
Mr. Gerald Stevenson	22/22	4/4	1/1	1/1	1/1

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

HEALTH, SAFETY AND ENVIRONMENT ("HSE")

Sunshine executives and managers believe in the HSE principle of "Safety First" and the Corporation has an excellent safety record. In 2013, the Corporation continued to emphasize improvements in the field safety monitoring system for preventing workplace injuries. We are committed to protecting and promoting the safety and well being of our employees, contractors, communities and the environment. We aim for safe and reliable operations where any risks which compromise the health and safety of workers are identified and addressed.

Sunshine meets all regulated standards for environment, health and safety. We continue to improve by working together and sharing responsibility for a healthy environment, as well as the safety and well being of our contractors, our families, our communities and ourselves.

SHAREHOLDER COMMUNICATION POLICY

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

REMUNERATION OF DIRECTORS

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

The compensation of directors is determined by our Board, which receives recommendations from the compensation committee. One of our NEDs did not receive any directors' fees. All of our EDs, INEDs and remaining NED's received directors' fees and Board committee retainers in 2013.

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

As of the date of this annual report, the Corporation does not have any employee long-term incentive plans. If it is decided to establish any such plans in the future, further to recommendations from the compensation committee, such plans will comply with applicable provisions of the Listing Rules.

Remuneration of the directors (including retainers, fees, salaries, discretionary bonuses, and other benefits including share based payments) was approximately $8.5 million for the year ended December 31, 2013 (2012 - $21.4 million).

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

DIRECTOR'S SECURITIES' TRANSACTIONS

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

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

The interest of Directors' and Chief Executive Officer ("CEO") in the Corporation's shares as at December 31, 2013 are set out in the "Directors' Report" section of this Annual Report.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

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

The fees in relation to the audit and related services for the year ended December 31, 2013 provided by Deloitte, the independent external auditors of the Corporation, were as follows:

Nature of services rendered	Fees paid/payable
Audit fees	371,732
Non-audit fees	100,045
	471,777

Audit fees consist of:
Audit of the Corporation's annual financial statements;
Reviews of the Corporation's interim financial statements;
Assessment of the design and testing of the effectiveness of internal controls; and
Consents and other services related to the Stock Exchange of Hong Kong and Canadian securities regulatory and authorities' matters.

Non-audit fees consist of:
Fees for tax services consisting of review of income tax compliance filings and other tax filings.

DIRECTORS RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges that it holds responsibility for:

Overseeing the preparation of the financial statements of the Corporation with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Corporation; and

Selecting suitable accounting policies and applying them consistently with the support of reasonable judgment and estimates.

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

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

The Board is aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Corporation's ability to continue as a going concern. For the year ended December 31, 2013, the Corporation reported a net loss of $32.8 million. At December 31, 2013, the Corporation had negative working capital of $103.2 million and an accumulated deficit of $200.9 million. The Corporation's recent losses and negative cash flow have resulted in a material uncertainty that may cast significant doubt upon the Corporation's ability to continue as a going concern without additional financing.

INTERNAL CONTROLS

The Board places great importance on internal control and is responsible to ensure that the Corporation maintains sound and effective internal controls.

The Corporation reviews and monitors the adequacy and effectiveness of the internal control system on ongoing basis. Since the Corporation does not have an internal audit function, the Corporation engaged the external auditor to complete testing of the design and effectiveness of its internal control system for the year ended December 31, 2013. The audit plans are discussed and agreed to each year with the audit committee.

Each year the Board reviews the overall effectiveness of the Corporation's internal controls. The Board has reviewed the effectiveness of the Corporation's system of internal control for the year ended December 31, 2013. In conducting such review, the Board has (i) reviewed the Corporation's internal control activities during the year and discussed such activities and the results thereof with Michael Hibberd, Executive Co-Chairman of the Board performing the functions of a Chief Financial Officer, (ii) reviewed and discussed the scope and results of the annual audit with the Corporation's independent external auditors, and (iii) reviewed with management the results of the Corporation's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board is not aware of any material defects in the effectiveness of internal controls.

ANNUAL ASSESSMENT

A review of the effectiveness of the Corporation's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2013 was conducted with reference to the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, which assesses the Corporation's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The Corporation has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Corporation's accounting and financial reporting function and their training. The approach, findings, analysis and results of this annual review have been reported to the Audit Committee and the Board.

The Corporation also has conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Corporation's accounting and financial reporting function, and their budget (for training and related programs).

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The Corporation's annual and interim reports, stock exchange filings, press releases and other information and updates on the Corporation's operations and financial performance are available for public access on the Corporation's website, www.sunshineoilsands.com, and some of these documents are also available on the website of The Stock Exchange of Hong Kong Limited, www.hkexnews.hk and on the website of SEDAR, www.sedar.com.

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

The AGM will be held on June 25th at 8 am in Hong Kong.

SHAREHOLDERS RIGHTS

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

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

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

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

The last meeting of the shareholders of the Corporation was a special meeting which was held in the Regus Conference Centre, PLAZA meeting room, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on April 15, 2014 at 8:00 a.m. (Hong Kong Time) (April 14, 2014 at 6:00 p.m. Calgary Time).

At this meeting the shareholders passed an an ordinary resolution approving a proposal for the Corporation to grant to the board of directors of the Corporation a general mandate to allot, issue and otherwise deal with unissued Shares not exceeding twenty percent (20%) of its issued share capital.

The last General and Special Meeting of shareholders was held at 8:00 a.m. on May 7, 2013 (Hong Kong time) in the Island Ballroom C on Level 5 of Island Shangri-La at Pacific Place, Supreme Court Road, Central, Hong Kong.

1. to receive and consider the audited financial statements of the Corporation as at and for the financial year ended December 31, 2012, the report of the Board and the report of the auditor thereon;

2. fixing the number of directors of the Corporation to be elected for the ensuing year;

3. to elect directors of the Corporation for the ensuing year;

4. to appoint auditors for the ensuing year and to authorize the directors of the Corporation to fix their remuneration;

5. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving certain amendments requested by the TSX to the Corporation's Post IPO Stock Option Scheme (defined below), as more particularly described in the accompanying management information circular (the "Circular");

6. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving certain amendments to the Corporation's Post IPO Share Option Scheme (as defined in the Circular) and Pre IPO Plan (as defined in the Circular) with respect to automatically extending the term of stock options where such term expires within or immediately following a trading blackout period, as more particularly described in the accompanying Circular;

7. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the refreshing of the ten percent (10%) mandate under the Corporation's Post IPO Share Option Scheme ("Refreshed Scheme Mandate"), as more particularly described in the accompanying Circular;

8. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the Corporation's Employee Share Savings Plan (the "ESSP") and granting the board a specific mandate to allot and issue, pursuant to the ESSP, a maximum number of new shares equal to one percent (1%) of the issued and outstanding shares as at the date of adoption of the ESSP, as more particularly described in the accompanying Circular;

9. to consider and if deemed advisable, to pass, with or without variation, an ordinary resolution approving a proposal for the Corporation to grant to the Board a general mandate to allot, issue and otherwise deal with unissued Shares not exceeding twenty percent (20%) of its issued share capital, as more particularly described in the accompanying Circular;

10. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving a proposal for the Corporation to grant to the Board a general mandate to repurchase Shares not exceeding ten percent (10%) of its issued share capital, as more particularly described in the accompanying Circular;

11. to consider and, if deemed advisable, to pass, with or without variation, a special resolution approving a consolidation of the Corporation's Shares, Class G Shares and Class H Shares, on the basis of one (1) post consolidation share of each respective class for every ten (10) pre consolidation shares of the same class, as more particularly described in the accompanying Circular; and

12. to transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

In order to safeguard shareholders' interests and rights, a separate resolution was proposed for each separate issue to be decided at a shareholders' meeting, including for the election of individual directors.

All resolutions above were approved except 11., which was withdrawn.

Directors' Report

The Board of Directors of the Corporation is pleased to present their report together with the audited consolidated financial statements of the Corporation and its wholly-owned subsidiaries for the year ended December 31, 2013 together with comparative figures for the corresponding period in 2012.

PRINCIPAL ACTIVITIES

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

PRINCIPAL SUBSIDIARIES

Particulars of the Corporation's principal wholly owned subsidiaries as at December 31, 2013 are set out in note 1 to the consolidated financial statements. The activities of the principal wholly owned subsidiaries of the Corporation at December 31, 2013 are set out in the table below:

Name	Country of incorporation	Issued and fully paid share capital	Principal activities
Sunshine Oilsands (Hong Kong) Ltd.	Hong Kong	$100	Management services

RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

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

SEGMENT INFORMATION

The Corporation has one business and geographical segment. Accordingly, no business and geographical segment information are presented.

PROPERTY AND EQUIPMENT

Details of the movements in the property and equipment of the Corporation during the year ended December 31, 2013 are set out in note 8 to the consolidated financial statements.

RESERVES

Details of movements in the Corporation's reserves during the year ended December 31, 2013 are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at December 31, 2013, reserves available for distribution to shareholders amounted to approximately $881.0 million as shown in the statutory accounts of the Corporation and calculated in accordance with the Corporation's articles of incorporation.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Corporation's articles of incorporation, by-laws of the Corporation or the ABCA.

SHARE CAPITAL

Details of the movements in the share capital of the Corporation during the year ended December 31, 2013 are set out in the consolidated statement of changes in equity in this Annual Report.

DIRECTORS

As at December 31, 2013 and up to the date of this annual report, the composition of the Board was as follows:

Co-Chairmen Executive Directors
Mr. Michael J. Hibberd
Mr. Songning Shen

Non-Executive Directors
Mr. Hok Ming Tseung
Mr. Tingan Liu
Mr. Haotian Li
Mr. Gregory Turnbull

Independent Non-Executive Directors
Mr. Raymond Fong
Mr. Robert Herdman
Mr. Wazir Seth
Mr. Gerald Stevenson

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

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the 2014 AGM has or is proposed to have a service contract that is not determinable by the Corporation within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions set out in note 19 to the consolidated financial statements and the transactions disclosed under the heading "Transactions with Related Parties" in the section entitled "Management Discussion and Analysis" of this Annual Report, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Corporation and its subsidiaries for the year ended December 31, 2013.

DIRECTORS' AND SENIOR MANAGEMENT'S INTEREST IN SHARES AND SHARE OPTIONS

As of December 31, 2013, the interests and short positions of the directors and chief executives of the Corporation in the shares and underlying shares of the Corporation and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Corporation and The Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Corporation under Section 352 of Part XV of the SFO or as otherwise notified to the Corporation and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Common shares

Name	Company	Nature of Interest	Number of common shares held[1]	Approximate % interest in the Common Shares
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/indirect	83,270,000	2.71%
Mr. Songning Shen	Sunshine Oilsands Ltd.	Direct/indirect	82,927,660	2.70%
Mr. Hok Ming Tseung	Sunshine Oilsands Ltd.	Direct/indirect	295,233,035	9.63%
Mr. Tingan Liu	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Haotian Li	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Gregory Turnbull	Sunshine Oilsands Ltd.	Direct/indirect	12,800,000	0.42%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct/indirect	8,100,000	0.26%
Mr. Robert Herdman	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Wazir (Mike) Seth	Sunshine Oilsands Ltd.	Direct	1,300,000	0.04%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	Direct	34,000	0.00%
Mr. David Sealock	Sunshine Oilsands Ltd.	Direct	2,735,753	0.09%

1. All positions are long positions.

SHARE OPTION SCHEME

Pre-IPO Stock Option Plan:

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

Post-IPO Stock Option Plan:

On January 26, 2012, the Post-IPO Stock Option Plan was approved and adopted by shareholders at the Corporation's Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Corporation's IPO 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 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; 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.

Stock options

Name	Company	Nature of Interest	Number of stock options held	Approximate % interest in the Options
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct	16,140,000	11.94%
Mr. Songning Shen	Sunshine Oilsands Ltd.	Direct	16,140,000	11.94%
Mr. Hok Ming Tseung	Sunshine Oilsands Ltd.	Direct	1,510,000	1.12%
Mr. Tingan Liu	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Haotian Li	Sunshine Oilsands Ltd.	Direct	1,510,000	1.12%
Mr. Gregory Turnbull	Sunshine Oilsands Ltd.	Direct	1,010,000	0.75%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct	910,000	0.67%
Mr. Robert Herdman	Sunshine Oilsands Ltd.	Direct	1,510,000	1.12%
Mr. Wazir (Mike) Seth	Sunshine Oilsands Ltd.	Direct	910,000	0.67%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	Direct	1,510,000	1.12%
Mr. David Sealock	Sunshine Oilsands Ltd.	Direct	4,900,000	3.63%

Save as disclosed above, as at December 31, 2013, none of the directors or chief executives (senior management team) of the Corporation have or are deemed to have interests or short positions in the shares, underlying shares of the Corporation and any of its associated corporations (within the meaning of Part XV of the SFO) which were notifiable to the Corporation and The Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Corporation under Section 352 of Part XV of the SFO, or as otherwise notifiable to the Corporation and The Stock Exchange of Hong Kong Limited pursuant to the Model Code.

Movements in Stock options

Name	Outstanding, beginning of year	Granted	Exercised	Forfeited	Expired	Outstanding, end of year
Mr. Michael Hibberd	26,070,000	—	(9,930,000)	—	—	16,140,000
Mr. Songning Shen	26,070,000	—	(9,930,000)	—	—	16,140,000
Mr. Hok Ming Tseung	1,510,000	—	—	—	—	1,510,000
Mr. Tingan Liu	—	—	—	—	—	—
Mr. Haotian Li	1,510,000	—	—	—	—	1,510,000
Mr. Gregory Turnbull	1,310,000	—	(300,000)	—	—	1,010,000
Mr. Raymond Fong	1,210,000	—	(300,000)	—	—	910,000
Mr. Robert Herdman	1,510,000	—	—	—	—	1,510,000
Mr. Wazir (Mike) Seth	2,210,000	—	(1,300,000)	—	—	910,000
Mr. Gerald Stevenson	1,510,000	—	—	—	—	1,510,000
Total for Directors	62,910,000	—	(21,760,000)	—	—	41,150,000
Mr. David Sealock	7,900,000	—	(1,500,000)	—	(1,500,000)	4,900,000
Mr. John Zahary[1]	10,000,000	—	—	—	—	10,000,000
Mr. Robert Pearce[2]	2,000,000	—	—	(666,667)	—	1,333,333
Mr. Tonino Sabelli	4,400,000	—	—	—	—	4,400,000
Mr. Mark Montemurro[3]	—	2,000,000	—	(2,000,000)	—	—
Ms. Laura Sullivan[4]	4,000,000	—	—	(4,000,000)	—	—
Total for Executive Management	28,300,000	2,000,000	(1,500,000)	(6,666,667)	(1,500,000)	20,633,333
Total for other share option holders	101,295,688	4,850,368	(23,435,000)	(7,900,660)	(1,448,136)	73,362,260
Total	192,505,688	6,850,368	(46,695,000)	(14,567,327)	(2,948,136)	135,145,593

1. Mr. Zahary joined Sunshine in December 2011 as President and Chief Executive Officer. In December 2013, Mr. Zahary resigned from the Corporation.

2. Mr. Pearce joined Sunshine in December 2012 as Senior VP, Finance and Chief Financial Officer. In December 2013, Mr. Pearce resigned from the Corporation.

3. Mr. Montemurro joined Sunshine in April 2013 as Senior Vice President, Engineering and Geosciences. In October 2013, Mr. Montemurro resigned from the Corporation.

4. Ms. Sullivan joined Sunshine in July 2012 as Senior Vice President, Engineering and Geosciences. In March 2013, Ms. Sullivan resigned from the Corporation.

Other than the holdings disclosed in the tables above, none of the directors or Chief Executive Officer of the Corporation or their related parties had any interests or short positions in any shares of the Corporation or its associated corporations as at December 31, 2013. Please refer to our Consolidated Financial Statements (note 13) included in this Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2013.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at December 31, 2013, so far as the directors are aware, the following shareholders (other than the directors or chief executives of the Corporation) had 5% or more beneficial interests or short positions in the issued shares and underlying shares of the Corporation which were recorded in the register required to be maintained by the Corporation under Section 336 of Part XV of the SFO:

Name	Nature of Interest	Number of common shares held[1]	Approximate % interest in the Common Shares
Goldview Development Ltd.	Beneficial	266,666,640	8.69%
Premium Investment Corporation	Beneficial	239,197,500	7.80%
Sinopec Century Bright Capital Investment Limited	Beneficial	239,197,500	7.80%
China Life Insurance	Beneficial	231,411,600	7.54%
Charter Globe Limited	Beneficial	206,611,560	6.74%

1. All positions are long positions

Save as disclosed above, as at December 31, 2013, so far as the directors are aware, no other persons or corporations had 5% or more interests or short positions in shares and underlying shares of the Corporation which were recorded in the register required to be maintained by the Corporation pursuant to Section 336 of Part XV of the SFO.

EMOLUMENT POLICY

The emolument policy of the executives of the Corporation is set up by the Compensation Committee on the basis of merit, qualifications and competence and recommendations from the Co-Chairmen and the CEO. Subject to changes directed by the Co-Chairmen, the emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the directors of the Corporation is decided by the Compensation Committee and approved by the Board, having regard to comparable market statistics.

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

Loan

As at December 31, 2013, the Corporation had no loans outstanding that were repayable upon demand or within one year or more.

MAJOR CUSTOMERS AND SUPPLIERS

Customers

The largest customer accounted for 51% of the Corporation's sales. Two customers accounted for the Corporation's total sales for the year ended December 31, 2013.

To the knowledge of the directors, none of the directors, their associates, or any shareholders (which, to the knowledge of the directors, own more than 5% of the issued share capital of the Corporation) had a beneficial interest in the Corporation's five largest suppliers and customers.

Suppliers

The largest supplier accounted for 5% of the Corporation's purchases. The five largest suppliers accounted for 22% of the Corporation's purchases for the year ended December 31, 2013.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken by the Corporation during the year in the ordinary course of business are set out in note 19 to the consolidated financial statements. None of these transactions constitutes a disclosable connected transaction as defined under the Listing Rules.

PUBLIC FLOAT

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

INDEPENDENT AUDITOR

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

On behalf of the Board

Michael J. Hibberd
Co-Chairman of the Board
April 22, 2014

Songning Shen
Co-Chairman of the Board
April 22, 2014

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the year ended December 31, 2013 is dated March 26, 2014. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2013. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

FORWARD LOOKING INFORMATION

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

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

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

OVERVIEW

Sunshine is a major holder and a developer of oil sands resources with approximately 3.7 billion barrels of best estimate contingent resources and 444 million barrels of proved plus probable ("2P") reserves, the Company has significant commercial development potential. In addition to these reserves and contingent resources, independent resource evaluation indicates 371 MMbbl of best estimate contingent resources for Harper Carbonates. These volumes do not meet the 10% discount rate used by the independent evaluator and have been classified as "sub-economic" at this time. It is anticipated that with improved pricing and/or further project definition the project may reasonably achieve a 10% rate of return and be reclassified as "economic" best estimate contingent resources.

The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the western hemisphere and the third largest oil resource in the world, with an estimated 169 billion barrels of recoverable resource. The Canadian oil sands represent the largest single source of supply of oil imported into the United States.

Sunshine is focused on evaluating and developing oil sands assets with the first project targeting an initial production rate of 10,000 barrels per day at West Ells (the "Project"). 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 in the first half of 2013; however, due to lack of sufficient funding to complete the Project, construction activities were suspended in August 2013 pending receipt of additional financing. Sunshine is maintaining staff at site to continue with reduced work activities and to ensure safety of the worksite. The effect of the work slow down on West Ells' schedules and costs will be outlined after funding for continued construction is committed.

The Thickwood and Legend projects are each planned for 10,000 barrels per day initially. The regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2014.

On August 6, 2013, the Company announced that the Board of Directors had directed management of the Company to commence a strategic review process to identify, examine and consider a range of strategic alternatives available to Sunshine, in order to progress its oil sands development strategy and to preserve and maximize shareholder value. This process is continuing and could result in one or more strategic transactions being completed by the Company including: debt or equity financing of the Company, or 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.

On August 18, 2013, the Company announced that it had entered into a Framework Agreement with an international third party to pursue a joint venture involving its Muskwa and Godin area oil sands leases. The Framework Agreement provides for a 50 – 50 joint venture pursuant to which the third party is responsible for funding 100% of the initial joint operations conducted up to a maximum $250 million, and will contribute a thermal enhanced recovery technology, to achieve production of 5,000 barrels per day from the oil sands leases. After the initial joint operations threshold is achieved, the joint venture parties will contribute in proportion to their ownership positions. On October 21, 2013, the Company announced it had signed the joint operating agreement for the joint venture.

As at December 31, 2013, the Company had invested approximately $1.0 billion in oil sands leases, drilling operations, project engineering, procurement and construction, regulatory application processing and other assets. As at December 31, 2013, the Company had $15.9 million in cash and cash equivalents (high yield savings).

The Company relies on its ability to obtain various forms of financing to fund administration expenses and future exploration and development of its projects. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and to discharge its liabilities when due is dependent on the successful completion of one or more financings or monetizing assets. There is no certainty that these and other financing activities will be successful.

OPERATIONAL UPDATE

West Ells

Construction of Phases 1 and 2 of Sunshine's West Ells SAGD 10,000 barrel per day project continues to be suspended as the Company seeks additional funding. Suspension of construction occurred during the third quarter, effective August 18, 2013. Sunshine intends to continue to develop the West Ells project in two phases, Phase 1 (5,000 bbls/d) and Phase 2 (5,000 bbls/d), with Phase 1 providing the supporting infrastructure for Phase 2 major process equipment. To date, Sunshine has completed:

- Phase 1 drilling and completion of eight well pairs;
- Phase 2 drilling of eight well pairs;
- Phase 1 facility is 81% complete, with an estimated 4 months to finish;
- Phase 2 facility is 22% complete, with an estimated 5 months to finish; and,
- Operations staff engaged in preservation and winterization of assets and activities supporting construction recommencement.

Following the August 18, 2013 suspension of West Ells construction, Sunshine engaged in an extensive re-examination of capital costs for the West Ells Project, Phases 1 and 2, including costs associated with suspending and then restarting engineering, procurement and construction activities. Costs for recommencing and completing construction, commissioning & start up, operating costs and the date for first steam will be finalized and released once additional funding is secured for a full West Ells development plan.

Thickwood and Legend

The Thickwood and Legend projects are each planned for first phase delivery of 10,000 barrels per day of production. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in the first half of 2014.

Once the Thickwood and Legend projects are sanctioned for development and construction, fieldwork for additional environmental analysis will be completed and regulatory applications will be made for significant commercial expansions in both areas.

Muskwa and Godin Operations

On October 20, 2013, Sunshine signed a joint operating agreement ("JOA") with Renergy Petroleum (Canada) Co., Ltd., ("Renergy") an affiliate of Changjiang Investment Group Co., Ltd. ("Changjiang") with respect to the Company's Muskwa and Godin area oil sands leases ("Leases"). Excluded from the JOA are all of Sunshine's oil sands rights within the carbonate formations contained within the Leases.

Renergy will operate the assets under the JOA as the Operator. In return for a 50% working interest, Renergy has agreed to fund 100% of the initial joint operations conducted on the lands up to a maximum of CAD $250 million (the "Commitment Cap"), which funding shall be deployed at the discretion of Renergy, as Operator, until the earlier of the point when (i) the sum contributed equals the Commitment Cap or (ii) average daily production from the lands over any 20 consecutive day period equals or exceeds 5,000 barrels per day (the "Production Target"). The working interest transfer has not resulted in any accounting gain or loss.

The transition of the operatorship to Renergy is well underway. Sunshine continues to work closely with Renergy on short term and long term planning and thermal technology evaluation for potential use in the Muskwa and Godin areas. First thermal pilot project application is currently expected to be submitted in the in the first half of 2014.

Pre-JOA operation in 2013, Muskwa remained in the resource definition stage. As such, the Company capitalized all costs incurred, including operating costs net of revenues, for financial reporting purposes.

Alberta Government Initiatives

On August 22, 2012, the Government of Alberta approved the Lower Athabasca Regional Plan ("LARP") to set aside land for conservation, tourism and recreation. Implementation of LARP was initiated on December 6, 2013. This did impact Sunshine's properties in the Harper area, where 24 agreements were affected with cancellation of oil sands leases resulting in a loss of 102,365 hectares of land. Compensation for the oil sands leases cancelled by the government was received on December 13, 2014 in the amount of $4.9 million. The resource impact assessment indicates a loss of recoverable resource, however, this loss was offset by the addition of recoverable resources resulting from the direct posting acquisition of 5,088 hectares in the Harper Birch River area in March of 2013.

Non-IFRS Financial Measures

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

These non-IFRS measures should not be considered as an alternative to or more meaningful than net income or net cash provided by operating activities, as determined in accordance with IFRS. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The non-IFRS measure of cash flow from operations can be reconciled to net cash provided by operating activities, as determined in accordance with IFRS.

Operational and Financial Highlights

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

	For the three months ended December 31,		For the year ended December 31,		
Financial Highlights	**2013**	2012	**2013**	2012	2011
Other income	**$ 661**	$ 1,033	**$ 2,219**	$ 12,228	$ 1,625
Expensed portion of IPO costs	—	—	—	16,258	3,547
Finance costs	**743**	2,858	**4,775**	20,237	25,470
Net loss	**7,515**	9,193	**32,780**	61,728	67,392
Basic and diluted loss per share	**0.00**	0.00	**0.01**	0.02	0.05
Payments for exploration and evaluation assets	**(3,943)**	64,831	**12,745**	229,382	155,561
Payments for property, plant and equipment	**46,644**	267	**270,508**	740	—

For the three months and year ended December 31, 2013, the Company had a net loss of $7.5 million and $32.8 million compared to $9.2 million and $61.7 million in 2012, respectively. The net loss for the three months and year ended December 31, 2013 was primarily attributable to general administration costs of $1.6 million and $17.8 million, $2.1 million and $9.3 million for share-based payment expense, finance costs of $0.7 million and $4.8 million respectively, and $2.7 million of suspension costs incurred in Q4. For the three months and year ended December 31, 2012, the net loss was due primarily to finance costs of $2.9 million and $20.2 million, $Nil and $16.3 million of expensed IPO costs, general administration costs of $4.6 million and $23.8 million, and $2.7 million and $13.4 million for share-based payment expense.

	2013	2012	2011
Cash and cash equivalents	**$ 15,854**	$ 282,231	$ 84,957
Working capital (deficiency)/surplus	**(103,182)**	215,471	(7,095)
Total assets	**1,029,388**	979,726	475,714
Total liabilities	**148,415**	108,650	327,127

At December 31, 2013, the Company had a combined cash and short term investment balance of $15.9 million compared to $282.2 million at December 31, 2012. The change of $266.4 million in the cash and cash equivalents balance can be attributed to investment in development of $283.3 million, primarily at Sunshine's West Ells project area, and $15.4 million used in corporate operating activities offset by net cash provided from financing activities of $30.0 million. At December 31, 2013, the Company's working capital deficiency was $103.2 million.

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

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	**2013**	2012
Net loss	**$ (7,515)**	(9,196)	**(32,780)**	(61,728)
Finance costs	**743**	2,859	**4,775**	20,237
Expense portion of IPO costs	—	—	—	10,863
Unrealized foreign exchange loss/(gain)	**101**	45	**(49)**	21
Interest income	**(761)**	(987)	**(2,170)**	(3,229)
Depreciation	**153**	91	**483**	290
Share-based payment expense	**2,075**	2,705	**9,298**	13,384
Employee share savings plan	**139**	—	**365**	—
Cash flow used in operations	**(5,065)**	(4,483)	**(20,078)**	(20,162)

This non-IFRS measurement is intended to provide additional information and should not be considered in isolation or as substitute for measures of performances prepared in accordance with IFRS. The above table reconciles the non-IFRS measurements "Cash flow used in operations" from "Net loss for the period", the nearest IFRS measure. Cash flow used in operations is defined as net loss as reported, addback or deduct non-cash items including expensed portion of IPO costs, finance costs, share-based payments, unrealized portion of foreign exchange adjustments, depreciation and interest income.

Cash flow used in operations in the three months and year ended December 31, 2013 totalled $5.1 million and $20.1 million compared to $4.5 million and $20.2 million for the same periods in 2012. The decrease of $0.6 million for the fourth quarter of 2013 compared to the same period in 2012, is primarily due to a decrease in net loss of $1.7 million, and a decrease in finance costs of $2.1 million. For the year ended December 31, 2013, the decrease in cash flow used in operations was $0.1 million due to lower finance costs of $15.5 million and $10.9 million of expensed IPO costs, offset by $28.9 million for the change in net loss and a reduction in interest income of $1.0 million compared to the same period in 2012. Given the nature of its business and stage of development, cash flow used in operations is a small portion of the Company's total cash needs and expenditures.

Summary of Quarterly Results

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

('000s except for per share amounts)	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Other income	661	118	622	818	1,032	1,142	2,992	7,061
Expense portion of IPO costs	—	—	—	—	—	—	44	16,213
Finance costs	743	1,475	816	1,741	2,859	215	66	17,098
Net loss for the period	7,515	8,681	8,327	8,257	9,196	15,531	4,673	32,331
Loss per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
Capital investments	42,701	53,324	101,336	85,892	65,098	32,510	90,035	42,477

RESULTS OF OPERATIONS

Finance Expense

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	**2013**	2012
Finance cost on share repurchase obligation	**$ —**	$ —	**$ —**	$ 5,864
Expensed portion of share issue costs	—	—	—	13,012
Finance cost on related party loan	—	—	—	266
Finance cost on credit facility	—	2,449	**1,541**	2,449
Financing related costs	**1,126**	—	**2,597**	—
Unwinding of discounts on provisions	**(383)**	410	**637**	761
Less: amounts capitalized in exploration and evaluation assets	—		—	(2,115)
	743	2,859	**4,775**	20,237

In October 2012, the Company signed a Credit Facility for availability 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. During the year ended December 31, 2013, the Company incurred $1.5 million for standby fees.

For the three month period ended December 31, 2013, finance expense decreased by $2.1 million primarily as a result of a reduction of $2.4 million in standby costs, compared to the same period in 2012, on the Credit Facility cancelled in Q4, partially offset by an increase in other financing related costs of $1.1 million. Finance expense for the twelve month period ended December 31, 2013 decreased by $15.5 million to $4.8 million from $20.2 million during the same period in 2012, primarily due to $13.0 million of share issue costs expensed in the prior period, the extinguishment of the share repurchase obligation for $5.9 million and a reduction in standby fees on the credit facility cancelled on October 10, 2013, offset by $2.6 million of other financing related costs (legal, other professional expenses and interest expenses).

In the second quarter of 2012, the Company drew and repaid $30.0 million under a previously available $100.0 million credit facility agreement (the "Loan Agreement") with a significant shareholder of the Company. Since the loan was classified as a financial liability and accounted for as other liabilities at amortized cost, the Company recorded non-cash finance costs of $0.3 million. Refer to Section: "Transactions with related parties" for terms and conditions of the Loan Agreement.

GENERAL AND ADMINISTRATIVE COSTS

	For the three months ended December 31,					
	2013			2012		
	Total	**Capitalized**	**Expensed**	Total	Capitalized	Expensed
Salaries, consulting and benefits	**1,594**	**1,761**	**(167)**	3,825	1,875	1,950
Rent	**771**	**426**	**345**	529	318	211
Other	**1,085**	**97**	**988**	1,750	285	1,465
	3,450	**2,284**	**1,166**	6,104	2,478	3,626

	For the year ended December 31,					
	2013			2012		
	Total	**Capitalized**	**Expensed**	Total	Capitalized	Expensed
Salaries, consulting and benefits	**18,645**	**8,725**	**9,920**	24,290	7,951	16,339
Rent	**2,414**	**1,346**	**1,068**	2,108	1,164	944
Other	**5,011**	**512**	**4,499**	5,981	1,046	4,935
	26,070	**10,583**	**15,487**	32,379	10,161	22,218

General and administrative costs, which include salaries, consulting and benefits, rent, and other general administrative costs, for the three month period ended December 31, 2013 decreased by $2.5 million to $1.2 million compared to $3.6 million for the same period in 2012. For the year ended December 31, 2013, general and administrative costs decreased by $6.7 million to $15.5 million compared to $22.2 million for the same period in 2012. The decrease in expense was primarily attributed to reduced bonus payments offset by higher compensation costs in 2013 as the Company continued to hire staff for its ongoing development. During the three months and year ended December 31, 2013, the Company capitalized salaries, consulting and benefits, rent and other general administrative costs related to capital investment of $2.3 million and $10.6 million compared to $2.5 million and $10.2 million for the same periods in 2012, respectively.

SHARE-BASED PAYMENTS

	For the three months ended December 31,					
	2013			2012		
	Total amount	**Capitalized portion**	**Expensed**	Total amount	Capitalized portion	Expensed
Share-based payments expense	**2,717**	**642**	**2,075**	4,275	1,570	2,705

	For the year ended December 31,					
	2013			2012		
	Total amount	**Capitalized portion**	**Expensed**	Total amount	Capitalized portion	Expensed
Share-based payments expense	**13,303**	**4,005**	**9,298**	20,445	7,061	13,384

Share-based compensation expense for the three months and year ended December 31, 2013 was $2.7 million and $13.3 million compared to $4.3 million and $20.4 million for the same period in 2012, respectively. The fair value of share-based payments associated with the granting of stock options and preferred shares is recognized by the Company in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.

The Company capitalizes a portion of the share based compensation expense using the same methodology associated with capitalized salaries and benefits. For each of the three months and year ended December 31, 2013 and 2012, the Company capitalized $0.6 million and $4.0 million, compared to $1.6 million and $7.1 million of share based payments for the same periods in 2012, respectively.

OTHER INCOME

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	**2013**	2012
Foreign exchange gain – realized	—	118	—	9,020
Foreign exchange gain/(loss) – unrealized	**(101)**	(72)	**49**	(21)
Interest income from term deposits	**761**	986	**2,170**	3,229
	660	1,032	**2,219**	12,228

Other income for the three months ended December 31, 2013 decreased by $0.3 million to $0.7 million from $1.0 million in 2012 and for the year ended December 31, 2013 decreased by $10.0 million to $2.2 million from $12.2 million for the year ended December 31, 2012, respectively. The change was primarily due to a net realized foreign exchange gain of $9.0 million for the year ended December 31, 2012. For the decrease related to interest income of $1.06 million for the year ended December 31, 2013, interest income declined as cash balances were invested in capital projects.

EXPENSED PORTION OF IPO COSTS

In the first quarter of 2012, the Company completed a public listing and initial public offering ("IPO") on the HKEX. The IPO raised approximately $569.9 million (HK$4.5 billion) gross proceeds for the Company. In conjunction with this financing, $Nil was recognized during the year ended December 31, 2013 while $16.3 million of the IPO costs were expensed in the year ended December 31, 2012. Of this amount, $5.3 million related to bonus payments and $11.0 million for IPO related costs such as legal and audit fees.

DEPRECIATION

Depreciation expense was $0.2 million for the three month period ended December 31, 2013 compared to $0.09 million for the same period in 2012. For the year ended December 31, 2013, depreciation expense was $0.5 million compared to $0.3 million for the same period in 2012. Since the Company is a development stage company, its oil assets are not yet ready for use and therefore, not subject to depletion and depreciation.

INCOME TAXES

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three months and year ended December 31, 2013 and 2012. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At December 31, 2013, the Company had total available tax deductions of approximately $1.1 billion, with unrecognized tax losses that expire between 2028 and 2033.

LIQUIDITY AND CAPITAL RESOURCES

December 31,	**2013**	2012
Working capital deficiency/(surplus)	**$ 103,182**	$ (215,471)
Shareholders' equity	**880,973**	871,076
	$ 984,155	$ 655,605

Working capital deficiency as at December 31, 2013 of $103.2 million is comprised of $15.9 million of cash and cash equivalents, offset by a non cash working capital deficiency of $119.1 million. The Company's strategy is to access sufficient capital, through equity issuances, monetization, joint ventures and the utilization of debt, in order to maintain a capital base that properly supports the objectives of maintaining financial flexibility and of sustaining future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. The Company's liquidity may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of financial market conditions generally or as a result of conditions specific to the Company. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of a financing or monetizing assets. There is no certainty that these and other strategies will be successful.

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. Although the Company has raised additional equity capital since December 31, 2013, the Company's recent losses and negative cash flow continue to create 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.

In October 2012, the Company negotiated and signed a $200 million Credit Facility with a syndicate of financial institutions. 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.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to certain expenditure commitments, deposits, accounts receivable 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. Thus, exchange rate fluctuations can affect the fair value of future cash flows.

The Company had no forward exchange rate contracts in place as at or during the three months and year ended December 31, 2013. If exchange rates to convert from HK dollars to Canadian dollars had been 1% 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.

The Company's $15.9 million in 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. To date, the Company has experienced no loss or lack of access to its cash in operating accounts, invested cash or cash equivalents. However, the Company can provide no assurance that access to its invested cash and cash equivalents will not be affected by adverse conditions in the financial markets. While the Company monitors the cash balances in its operating and investment accounts and adjusts the cash balances as appropriate, these cash balances could be affected if the underlying financial institutions or corporations fail or are subject to other adverse conditions in the financial markets.

CASH FLOWS SUMMARY

	For the three months ended December 31,		For the year ended December 31	
	2013	2012	**2013**	2012
Cash (used in)/generated by operating activities	**$ (126)**	$ (3,570)	**$ (15,372)**	$ (18,581)
Cash used in investing activities	**(41,938)**	(64,113)	**(281,083)**	(226,893)
Cash generated/(used in) by financing activities	**23,832**	(5,659)	**30,029**	442,769
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**(101)**	(72)	**49**	(21)
(Decrease)/increase in cash and cash equivalents	**(18,333)**	(73,414)	**(266,377)**	197,274
Cash and cash equivalents, beginning of period	**34,187**	355,645	**282,231**	84,957
Cash and cash equivalents, end of period	**$ 15,854**	$ 282,231	**$ 15,854**	$ 282,231

OPERATING ACTIVITIES

Net cash used for operating activities for the three months and year ended December 31, 2013 was $0.1 million and $15.4 million compared to cash used of $3.6 million and $18.6 million in 2012, a change of $3.5 million and $3.2 million, respectively. Net cash used for operating activities includes movements in working capital of $4.9 million and $4.7 million for the three months and year ended December 31, 2013 compared to $0.9 million and $1.6 million for the same periods in 2012, respectively.

INVESTING ACTIVITIES

Net cash used for investing activities for the year ended December 31, 2013 grew by $54.2 million to $281.1 million compared to $226.9 million for the year ended December 31, 2012. The increase was due to higher investment primarily in West Ells development, of $283.3 million, offset by $2.2 million of interest income for the year ended December 31, 2013.

Capital investment for the 2013 development program focused on SAGD wellpair drilling and completion, construction, procurement of major equipment and related capital costs for Phase 1 and 2 of the West Ells project, the maintenance of the West Ells access road, and resource delineation and expenditures related to regulatory advancement for projects at Thickwood and Legend. Substantial engineering, procurement and construction activity occurred for West Ells during 2012 and during the first half of 2013; however, due to lack of sufficient funding to complete the Project, these activities were suspended on August 2013 pending receipt of additional financing. Sunshine continues to maintain 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 incurred after the August 18, 2013 suspension, which totalled $2.7 million for the year, are recognised as suspension costs in the consolidated statements of operations and comprehensive loss.

FINANCING ACTIVITIES

Financing activities for the three months and year ended December 31, 2013 generated $23.8 million and $30.0 million, which consisted of proceeds received from a private placement completed of $Nil and $24.9 million, stock option exercises of $Nil and $8.4 million, offset by $0.4 million and $2.8 million of finance related costs in the respective periods. For the year ended December 31, 2012, financing activities were comprised of gross proceeds received in connection with Sunshine's IPO on the HKEX for $569.9 million, offset by $68.9 million used to repurchase all warrants issued and outstanding before the IPO, $14.7 million for common share repurchases and $25.6 million of share issue costs and an IPO advisory fee. For the three months ended December 31, 2012, financing activities included the $7.1 million for common share repurchases and $0.2 million of share issue costs, offset by $3.6 million of proceeds received from stock option exercises.

COMMITMENTS AND CONTINGENCIES

Information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. As at December 31, 2013, the Company's estimated 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	9,401

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 West Ells 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 as discussed in Financing Activities and continues to pursue additional financing to enable it to meet these obligations and clear up these issues and continue developing its business. 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 paid 25% of all past due and unpaid invoices in December, and another 20% payment of all past due and unpaid invoices in early March, 2014 in exchange for these two forbearance agreements. This Collective and continous forbearance from suppliers, and their support of financing endeavours, has allowed the Company to continue with efforts to secure the required financing to complete the West Ells project.

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

TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation. The Company had related party transactions with the following companies related by way of directors or shareholders in common:

- Orient International Resources Group Limited and its affiliated companies ("Orient Group") is a private group of companies controlled by Mr. Hok Ming Tseung, a significant shareholder and director of the Company. At December 31, 2013, Orient Group owned approximately 10% of the outstanding shares of the Company. In 2010 through to 2012, Orient Group provided advisory services with respect to various IPO related matters and other strategic topics. Orient Group provided a credit facility agreement to the Company in 2011 through 2012.

- MJH Services Ltd. ("MJH Services") is a private company wholly owned by one of Sunshine's Co-Chairmen of the Board of Directors. MJH Services provides overall operational services to the Company.

- 1226591 Alberta Inc. ("1226591 Inc.") is a private company wholly owned by one of Sunshine's Co-Chairmen of the Board of Directors. 1226591 Inc. provides overall operational services to the Company.

- McCarthy Tetrault LLP is a law firm in which a director of the Company is a partner. McCarthy's provides legal counsel to the Company.

Details of transactions between the Company and its related parties are disclosed below.

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 bore interest at 3.0% per annum, secured by the common shares and was repaid in full on December 10, 2013. The Company classified the loan as "other receivable" under financial assets.

The Company incurred consulting compensation payments and performance related incentive payments to MJH Services totalling $0.45 million for the year ended December 31, 2013 compared to $3.95 million for the same period in 2012. The Company incurred consulting and performance related incentive payments to 1226591 Inc. totalling $0.45 million for the year ended December 31, 2013 compared to $3.95 million for the same period in 2012.

The Company classified legal costs with McCarthy Tetrault LLP as follows:

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	**2013**	2012
Share issue costs	**—**	—	**—**	271
Legal expense	**286**	270	**926**	398
Finance fees	**—**	—	**235**	—
Expensed portion of IPO costs	**—**	—	**—**	551
Capitalized to E&E	**(107)**		**272**	
	179	270	**1,433**	949

The following balances were outstanding and included in trade and other payables for McCarthy Tetrault LLP at the end of the reporting period:

	2013	2012
Legal	**887**	136

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2013, the Company did not have any off-balance sheet arrangements.

SUBSEQUENT EVENT

Subsequent to December 31, 2013, the Company completed additional closings of its private placement 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$0.26 per common share) for a period of 24 months following the closing date. Total subscriber's warrants issued in the additional closings were 60,414,064. After payment of a 3% cash fee of HK$ 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, were HK$303,491,728 or approximately C$ 43.1 million. In addition, 72,496,877 warrants were issued to finders in relation to these closings. A total of 132,910,941 warrants were issued 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. Additional information can be found on the websites of SEDAR (www.sedar.com), the HKEX (www.hkexnews.hk) and the Company's website at www.sunshineoilsands.com.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

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, 2013. The Company has reviewed new and revised accounting pronouncements that have been issued. The impact of these standards are disclosed in Note 3.17, "Changes in Accounting Policies" in the consolidated financial statements.

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Going concern

The 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.

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

Impairment of non-financial assets

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

Recoverability of exploration and evaluation costs

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

RISK FACTORS

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2013, which is available at www.sedar.com. The 2013 annual report of the Company is available at the Company's website, www.sunshineoilsands.com, and the website of the HKEX, www.hkexnews.hk. The Company's 2013 Annual Information Form is available at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and Executive Co-Chairman of the Board have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at the financial year end of the company and concluded that the Company's internal controls over financial reporting are effective at the financial year end of the company for the foregoing purpose.

No material changes in the Company's internal controls over financial reporting were identified during the three months and year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

ADDITIONAL STOCK EXCHANGE INFORMATION

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

CODE OF CORPORATE GOVERNANCE PRACTICE (THE "CODE")

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

The Company confirms that the Code was complied with following its public listing, save that the Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis at each annual general meeting, which is consistent with market practice in Canada.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (THE "MODEL CODE")

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

PURCHASE, SALE OR REDEMPTION OF SUNSHINE'S LISTED SECURITIES

Class "A" Common Shares

During the three months and year ended December 31, 2013, the Company issued 182,118,924 Class "A" common shares and 235,454,630 Class "A" common shares for $25.2 million and $34.1 million, respectively. The Class "A" common shares issuances included a private placement, Class "G" and "H" Preferred Share conversions, stock option exercises and issuances from the Company's employee share savings plan.

During the three months and year ended December 31, 2013, the Company issued 106,800,000 Class "A" common shares in a private placement at a price of HK $1.70 per Unit (approximately C$0.24 per Unit) for gross proceeds of HK$181.6 million or approximately C$24.9 million.

During the three months and year ended December 31, 2013, the Company issued 74,205,000 and 78,945,000 Class "A" common shares respectively, from the conversion of Class "G" and "H" Preferred Shares for gross proceeds of $36 thousand and $40 thousand, respectively.

During the three months and year ended December 31, 2013, the Company issued Nil and 46,695,000 Class "A" common shares respectively, from Pre-IPO stock option exercises for gross proceeds of Nil and $8.4 million, respectively.

During the three months and year ended December 31, 2013, the Company issued 1,113,924 and 3,014,630 Class "A" common shares respectively, from the Company's employee share savings plan for gross proceeds of $0.3 million and $0.7 million, respectively.

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company during the year ended December 31, 2013.

Class "G" Preferred Shares

During the three months and year ended December 31, 2013, 52,390,000 and 60,190,000 Class "G" Preferred Shares were converted to 52,005,000 and 56,745,000 Class "A" common shares for $25 thousand and $29 thousand. There were Nil and 250,000 Class "G" Preferred Shares cancelled during the three months and year ended December 31, 2013, respectively.

Class "H" Preferred Shares

For the three months and year ended December 31, 2013, there were 22,200,000 Class "H" preferred shares converted to 22,200,000 Class "A" common shares for $11 thousand.

Pre-IPO Stock Option Plan

The Company no longer grants stock options under the Pre-IPO Plan. During the three months and year ended December 31, 2013, there were Nil and 46,695,000 Pre-IPO stock options exercised at a weighted average exercise price of $Nil and $0.18 per stock option. There were also Nil and 5,440,914 forfeitures of Pre-IPO stock options during the three months and year ended December 31, 2013.

Post-IPO Stock Option Plan

For the three months and year ended December 31, 2013, the Company granted Nil and 6,850,368 Post-IPO stock options. During the three months and year ended December 31, 2013, there were Nil Post-IPO stock options exercised. There were also 4,757,044 and 12,074,549 forfeitures of Post-IPO stock options during the three months and year ended December 31, 2013.

SHARES OUTSTANDING

As at March 26, 2014, the Company had the following shares issued and outstanding:

Class "A" common shares	3,249,089,233
Class "G" preferred shares	—
Class "H" preferred shares	—

SUMMARY OF FINANCIAL STATEMENTS AND NOTES

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiary, for the three months and year ended December 31, 2013 together with comparative figures for the corresponding periods in 2012 as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	**$ 15,854**	$ 282,231
Trade and other receivables	**1,294**	2,155
Prepaids and deposits	**656**	701
	17,804	285,087
Non-current assets		
Exploration and evaluation	**376,912**	366,668
Property, plant and equipment	**634,672**	327,971
	1,011,584	694,639
	$ 1,029,388	$ 979,726
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	**$ 120,114**	$ 68,821
Provisions for decommissioning obligations	**872**	795
	120,986	69,616
Non-current liabilities		
Provisions for decommissioning obligations	**23,597**	39,034
Share purchase warrants	**3,832**	—
	148,415	108,650
Net current (liabilities)/assets	**(103,182)**	215,471
Total assets less current liabilities	**908,402**	910,110
Shareholders' Equity		
Share capital	**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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended December 31,		For the year ended December 31,	
	2013	2012	**2013**	2012
Other income				
Foreign exchange gains	**$ (101)**	$ 45	**$ 49**	$ 8,999
Interest income	**761**	987	**2,170**	3,229
	660	1,032	**2,219**	12,228
Expenses				
Salaries, consulting and benefits	**(167)**	1,950	**9,920**	16,339
Rent	**346**	211	**1,068**	944
Professional fees	**1,385**	947	**2,304**	1,569
Depreciation	**153**	91	**483**	290
Share-based payments	**2,075**	2,705	**9,298**	13,384
Suspension costs	**2,652**	—	**2,652**	—
Expensed portion of IPO costs	—	—	—	16,258
Finance costs	**743**	2,859	**4,775**	20,237
Other	**988**	1,465	**4,499**	4,935
	8,175	10,228	**34,999**	73,956
Loss before income taxes	**7,515**	9,196	**32,780**	61,728
Income taxes	—	—	—	—
Net loss and comprehensive loss for the period attributable to equity holders of the Company	**7,515**	9,196	**32,780**	61,728
Basic and diluted loss per share	**$ 0.00**	$ 0.00	**$ 0.01**	$ 0.02

Notes

1. *Basis of preparation*

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, measured at fair value.

The consolidated financial statements are presented in Canadian Dollars ("$"), which is the functional currency of the Company.

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiary, Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong"). 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. All inter-company transactions, balances, revenues and expenses are eliminated in full on consolidation.

2. *Segment Information*

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

3. *Trade Receivables*

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

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

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

	2013	2012
0 - 30 days	**$ 408**	$ 46
31 - 60 days	**21**	250
61 - 90 days	**11**	1
>90 days	**118**	—
	$ 558	$ 297

As at December 31, 2013, included in the Company's trade receivables were debtors with an aggregate carrying amount of $150 (December 31, 2012 - $251), which was past due as at the reporting date and for which the Company had not provided for impairment loss. The Company does not hold any collateral over these balances.

4. Trade Payables

Trade payables and accrued liabilities mainly represent payables to subcontractors for development, engineering, procurement and construction services. While the Company has financial risk management policies in place to ensure that payables are generally paid within pre-agreed credit terms, the recent funding shortfalls which caused the Company to suspend construction at its West Ells project also caused it to defer payments to essentially all of its vendors for amounts owed prior to the August 18, 2013 suspension date. Services performed after the suspension date are being paid fully in a timely manner. Numerous vendors have filed liens against the Company's lands at West Ells and these liens will need to be cleared up once additional funding is achieved to allow the Company to restart construction. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting periods:

	2013	2012
Trade		
0 - 30 days	**$ 1,326**	1,170
31 - 60 days	—	3,378
61 - 90 days	**12,263**	1,005
> 91 days	**89,417**	1,262
	103,006	6,815
Accrued liabilities	**17,108**	62,006
	$ 120,114	68,821

5. Dividends

The Company has not declared or paid any dividends in respect of the three months and year ended December 31, 2013 (2012 - $Nil).

6. Income Taxes

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	**$ —**	$ —

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

For the years ended December 31,	**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)**	—
	$ —	$ —

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

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 25.0%. The Company had no assessable profit in Canada for the three months and year ended December 31, 2013. The Company files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. The estimated tax deductions available to the Company in Canada are approximately $1.1 billion. The Company's tax losses will begin expiring in 2028.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three months and year ended December 31, 2013.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements for the Company for the year ended December 31, 2013, were reviewed by the Audit Committee of the Company.

PUBLICATION OF INFORMATION

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

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

Independent Auditor's Report

Deloitte & Touche LLP
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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)

	Notes	As at December 31, **2013**	2012
Assets			
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)

	Notes	For the years ended December 31	
		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
uspension 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.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Notes	For the years ended December 31, 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.

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. BASIS OF PREPARATION (Continued)

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.

2. BASIS OF PREPARATION (Continued)

2.2 Critical accounting judgments and key sources of estimation uncertainty (Continued)

2.2.1 Critical judgments and estimates in applying accounting policies (Continued)

Impairment of non-financial assets

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

2. BASIS OF PREPARATION (Continued)

2.2 Critical accounting judgments and key sources of estimation uncertainty (Continued)

2.2.1 Critical judgments and estimates in applying accounting policies (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Oil and Natural Gas Exploration and Development Expenditures (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Property, plant and equipment (Continued)

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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Share-based payments (Continued)

3.5.1 Equity-settled share-based payment transactions (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial assets (Continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial assets (Continued)

3.6.3 Impairment of financial assets (Continued)

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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Financial liabilities and equity instruments issued by the Company (Continued)

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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Changes in accounting policies (Continued)

- 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).

7. EXPLORATION AND EVALUATION ASSETS (Continued)

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.

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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. INCOME TAXES (Continued)

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.

12. SHARE CAPITAL (Continued)

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)

12. SHARE CAPITAL (Continued)

12.1 Common shares (Continued)

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. SHARE CAPITAL (Continued)

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. SHARE CAPITAL (Continued)

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

12. SHARE CAPITAL (Continued)

12.4 Class "H" preferred shares (Continued)

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%).

13. SHARE-BASED PAYMENTS (Continued)

13.3 Fair value of share options granted in the period (Continued)

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. SHARE-BASED PAYMENTS (Continued)

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.

18. FINANCIAL INSTRUMENTS (Continued)

18.1 Capital risk management (Continued)

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. FINANCIAL INSTRUMENTS (Continued)

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. FINANCIAL INSTRUMENTS (Continued)

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

19. RELATED PARTY TRANSACTIONS (Continued)

19.1 Trading transactions (Continued)

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. RELATED PARTY TRANSACTIONS (Continued)

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.

21. COMMITMENTS AND CONTINGENCIES

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

22. SUPPLEMENTAL CASH FLOW DISCLOSURES (Continued)

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:

	2013	2012
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.

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

A2. Directors' emoluments and other staff costs (Continued)

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.

Corporate Information

BOARD OF DIRECTORS:

Executive Directors:
Mr. Michael J. Hibberd
Mr. Songning Shen

Non-Executive Directors:
Mr. Hok Ming Tseung
Mr. Tingan Liu
Mr. Haotian Li
Mr. Gregory G. Turnbull

Independent Non-Executive Directors:
Mr. Raymond S. Fong
Mr. Robert J. Herdman
Mr. Wazir C. (Mike) Seth
Mr. Gerald F. Stevenson

COMPANY SECRETARY:

Mr. Richard W. Pawluk

AUTHORIZED REPRESENTATIVES:

Mr. Haotian Li

COMPLIANCE ADVISER:

Anglo Chinese Corporate Finance Limited

AUDITORS:

Deloitte LLP

AUDIT COMMITTEE:

Mr. Robert J. Herdman (Chairman)
Mr. Gerald F. Stevenson
Mr. Wazir C. (Mike) Seth

COMPENSATION COMMITTEE:

Mr. Robert J. Herdman (Chairman)
Mr. Gregory G. Turnbull
Mr. Hok Ming Tseung
Mr. Raymond S. Fong
Mr. Gerald F. Stevenson

RESERVES COMMITTEE:

Mr. Wazir C. (Mike) Seth (Chairman)
Mr. Songning Shen
Mr. Raymond S.Fong
Mr. Gerald F. Stevenson

CORPORATE GOVERNANCE COMMITTEE

Mr. Gerald F. Stevenson (Chairman)
Mr. Michael J. Hibberd
Mr. Haotian Li
Mr. Tingan Liu
Mr. Robert J. Herdman
Mr. Wazir C. (Mike) Seth
Mr. Raymond S. Fong

CORPORATE HEADQUARTERS:

Suite 1020, 903 Eighth Avenue SW
Calgary, Alberta
T2P 0P7 Canada
Tel: (403) 984-1450

REGISTERED OFFICE IN ALBERTA:

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Calgary, Alberta T2P 4K9 Canada

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

8504A, 85/F, International Commerce Centre,
1 Austin Road West, Kowloon
Hong Kong
Tel: (852) 3188-9298

SHARE REGISTRAR IN HONG KONG:

Computershare Hong Kong Investor Services Limited

SHARE REGISTRAR IN ALBERTA:

Alliance Trust Company

COMPETENT PERSONS:

DeGolyer and MacNaughton Canada Limited
GLJ Petroleum Consultants Limited

PRINCIPAL BANKERS:

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

LEGAL ADVISERS:

McCarthy Tétrault LLP
Freshfields Bruckhaus Deringer

WEBSITE:

www.sunshineoilsands.com

PLACE OF SHARE LISTING AND STOCK CODE:

The Stock Exchange of Hong Kong Limited: 2012
Toronto Stock Exchange: SUO

SUNSHINE OILSANDS LTD.