



# SUNSHINE OILSANDS LTD.

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

**(HKEx: 2012, TSX: SUO)**



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#### **ON THE COVER**

**A 5,000 bbl/d central processing facility plant from Phase One of the West Ells SAGD commercial project. The plant includes oil treatment, water treatment, steam generation, power generation, oil storage, water storage, and oil trucking facilities. The start-up of the facility is anticipated in June 2015 to supply steam and process production fluids from the well pads (not shown in the picture). Phase Two, designed for an additional 5,000 bbl/d of production, has been partially constructed alongside Phase One. Some major equipment has been purchased and well pairs have been drilled for Phase Two.**

# SUMMARY OF AUDITED FINANCIAL FIGURES

## SUMMARY OF AUDITED FINANCIAL FIGURES

As at and for the year ended December 31	<b>2014</b> (\$000s)	2013 (\$000s)	2012 (\$000s)	2011 (\$000s)	2010 (\$000s)
Cash and cash equivalents	<b>136,097</b>	15,854	282,231	84,957	41,540
Current restricted cash and cash equivalents	<b>23,467</b>	—	—	—	—
Non-current restricted cash and cash equivalents	<b>11,601</b>	—	—	—	—
Exploration and evaluation assets	<b>379,403</b>	376,912	366,668	382,277	197,836
Property, plant and equipment	<b>701,736</b>	634,672	327,971	719	474
Total liabilities	<b>288,044</b>	148,415	108,650	327,127	20,602
Shareholders' equity	<b>972,016</b>	880,973	871,076	148,587	222,433
Net loss	<b>26,767</b>	32,780	61,728	67,392	9,857
Net loss per share (\$ per basic and diluted share)	<b>0.01</b>	0.01	0.02	0.05	0.01

In 2014, Sunshine Oilsands Ltd. (the “Corporation”) successfully focused on two key initiatives:

- securing capital to support re-commencement of construction of the first phase of the West Ells steam assisted gravity drainage (“SAGD”) project; and
- detailed preparations for managing the construction, schedule and costs at West Ells.

The restart of construction at West Ells was achieved in October 2014 after key capital raising initiatives were completed. These initiatives secured \$144.0 million of equity proceeds between December 2013 and June 2014 and achieved closing of a US\$200 million senior secured notes offering in August 2014.

For the year ended December 31, 2014, the Corporation achieved progress in the following areas:

- Expanded the Project Management Team, the most important new hire being a new Senior Project Manager for Facilities Engineering with extensive SAGD operations and engineering procurement and construction experience;
- Substantially completed investigational analysis of work done and formalized plans to complete Phase 1 construction of the West Ells SAGD project;
- Conducted quality assurance and quality control inspections;
- Completed preparations for construction recommencement;
- Reopened our 250 man construction camp at West Ells to support full operational capability;
- Engaged major contractors (mechanical, electrical and civil) to support West Ells project execution;
- Resumed full construction of Phase 1 of West Ells in October 2014;
- Received 52 of 65 major modules at the West Ells site during 2014; and
- Achieved planned progress in construction activities.

As at the date of this annual report, construction of the West Ells facilities is proceeding in line with budgets and is approximately 94% complete.

## Sunshine’s Capital Raising Activities

- From December 2013 to February 2014 Sunshine closed private placement offerings of Units totaling 288,042,193 Units at a price of HK\$1.70 per Unit (approximately \$0.24/Unit) for total gross proceeds of HK\$489.7 million (approximately \$68.7 million). Each Unit consisted of one Class “A” common share and one-third of one Class “A” common share purchase warrant. This resulted in an issuance of 288,042,193 Class “A” common shares and 211,230,941 share purchase warrants.
- In June 2014, Sunshine closed a private placement offering of Class “A” common shares, for a total of 640,000,000 Class “A” common shares at a price of HK\$0.85 per share (approximately \$0.12 per share) for total gross proceeds of HK\$544.0 million or approximately \$75.4 million.

- On July 17, 2014, the Corporation entered into a petroleum, natural gas and general conveyance agreement for the sale of certain non-core oilsands assets which related to, among other things, lands and petroleum and natural gas rights to a third party for total consideration of \$20.0 million. The disposal was conducted between the parties on an arm's length basis. The sale was completed on July 21, 2014.
- On August 8, 2014, the Corporation completed an offering of US\$200 million senior secured notes (the "Notes") at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a final maturity date of August 1, 2017. The Notes are senior secured obligations over the Corporation's assets.

## Summary of Financial Figures

For the fourth quarter of 2014, the Corporation had a net loss of \$12.3 million compared to \$7.5 million for the same period in 2013, representing a net loss per share of \$0.00 for both periods. For the year ended December 31, 2014, the Corporation had a net loss of \$26.8 million compared to \$32.8 million for the year ended December 31, 2013, representing a net loss per share for each respective year of \$0.01 and \$0.01.

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

	2014 (\$000s)	2013 (\$000s)
Cash and cash equivalents	136,097	15,854
Current restricted cash and cash equivalents	23,467	—
Non-current restricted cash and cash equivalents	11,601	—
Exploration and evaluation assets	379,403	376,912
Property and equipment	701,736	634,672
Total liabilities	288,044	148,415
Shareholders' equity	972,016	880,973

## Reserves and Resources

On March 10, 2015, the Corporation announced the results of its reserves and resources evaluations, effective as at December 31, 2014. For a full discussion of the Corporation's reserves and resources data and other oil and gas information, see the "Statement of Reserves Data and Other Oil and Gas information" in the Corporation's Annual Information Form for the year ended December 31, 2014, a copy of which is available on the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk), on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.sunshineoilsands.com](http://www.sunshineoilsands.com).

## 2015 Outlook

Sunshine remains committed to completing and producing the West Ells project and continues to look for opportunities for joint ventures to reduce capital commitments and to accelerate activities aimed at increasing production. In addition, the Corporation's ongoing plan for 2015 is to continue to look for opportunities to secure additional financing to expand construction, operations and development activities in the West Ells project area and in other areas.

The schedule for West Ells startup has been modified as of March 26, 2015. The Board of Directors has endorsed a management recommendation to extend the commissioning and start up period for the West Ells project. Under the revised schedule, extended commissioning activities are anticipated to result in full first steam commencing in late June 2015, with first oil in September 2015. The

Board of Directors believes that Sunshine's operational priority is to ensure a smooth start up of the Phase 1 West Ells facilities and achievement of nameplate capacity of 5,000 bbls/d, since this initial project phase is central to validating the commercial potential of the Wabiskaw formation in the West Ells, Thickwood and Legend project areas. Key considerations noted in the schedule revision include the following:

- 1) Electrical installation, instrumentation and programming were being fast tracked to achieve first steam for Phase 1 of the West Ells project. This fast tracking introduced a risk that costly delays could result from sub-optimal electrical and control systems performance. It is management's opinion that this risk can be avoided if a thorough extended installation and testing protocol is followed.
- 2) Management has noted that productivity and cost efficiency on the West Ells site can be better managed through commissioning on an extended schedule. Current daily on-site contract personnel is averaging between 180 and 200, plus 40 operations personnel on shift rotations. Peak on-site personnel exceeded 425 plus operations personnel, during January and February 2015.
- 3) There is currently a concern that there is potential for delay in receipt of licences and municipal permits required for start up in mid-April 2015. This is not viewed as a risk with an extended commissioning and start up schedule.
- 4) There is a potential to take advantage of lower contract and labour costs by spreading West Ells completion and commissioning activities over a longer time period in the softening labour and contracting environment.
- 5) If additional financing is secured to fund Phase 2 expansion at West Ells, significant cost efficiencies can be secured through contracting at lower costs and through avoidance of demobilization and remobilization costs through an extended schedule.

### **Acknowledgements**

We would like to thank our Board of Directors, our staff and our stakeholders for their continuing support for advancing our corporate initiatives during a challenging commodity price cycle. We intend to ensure that our West Ells initiatives are completed to ensure a smooth start up of the Phase 1 West Ells facilities and achievement of nameplate capacity.

## NON-EXECUTIVE CHAIRMAN AND DIRECTOR

**Mr. Tingan Liu**, aged 53, is a Non-Executive Chairman and the Hong Kong Joint Company Secretary of the Corporation. 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. Mr. Liu has been appointed as our authorised representative pursuant to Rules 2.11 and 3.05 of the Listing Rules. 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 the deputy chairman of the Hong Kong Institute of Directors. Mr. Liu received the “Director of the Year Award 2009”, organised by The Hong Kong Institute of Directors in the category of Private Company Executive Directors. He was also a winner of China’s “Top 10 Economic Talents Special Award 2009” and a winner of the “Leader of Excellence Award 2013”. Mr. Liu obtained a master’s degree in economics from Renmin University of China in 1988 and completed a scholarship programme in monetary policy and financial markets at the University of Oxford in 1991. He is a senior economist, a fellow of the Institute of Chartered Secretaries and Administrators of United Kingdom and a fellow of the Hong Kong Institute of Chartered Secretaries.

## EXECUTIVE VICE CHAIRMAN AND DIRECTOR

**Mr. Michael J. Hibberd**, aged 59, became Executive Vice-Chairman of the Corporation on November 28, 2014. He was Executive Chairman from June 25, 2014 to November 28, 2014 and was Co-Chairman of Sunshine from October 6, 2008 to June 25, 2014. Mr. Hibberd was a founder of Sunshine and held the title of Chairman and Co-CEO from May, 2007 to October 6, 2008. Mr. Hibberd is President and CEO of MJH Services Inc., a corporate finance advisory company established in January 1995. Mr. Hibberd has extensive international energy project planning and capital markets experience. Prior to January 1995, Mr. Hibberd spent 12 years with ScotiaMcLeod. Mr. Hibberd worked in corporate finance in Toronto and Calgary and held the position of Director and Senior Vice-President, Corporate Finance. Mr. Hibberd is currently Chairman of Canacol Energy Ltd. (TSX and Bolsa de Valores de Colombia) and Greenfields Petroleum Corporation (TSX Venture Exchange). He is a director of Montana Exploration Corp., PanOrient Energy and PetroFrontier Corp., all of which are listed on the TSX Venture Exchange. Mr. Hibberd was previously Chairman Heritage Oil Plc and Heritage Oil Corporation. He was also director of Challenger Energy, Deer Creek Energy, Iteration Energy, Zapata Energy, Sagres Energy and Rally Energy Corp. Mr. Hibberd obtained his BA in 1976 and his MBA in 1978 from the University of Toronto. He obtained his LLB from University of Western Ontario in 1981, was called to the bar in 1983 and is a member of The Law Society of Upper Canada.

## EXECUTIVE DIRECTORS (“EDs”)

**Dr. Qi Jiang**, age 51, was appointed a Non-Executive Director of the Corporation on December 15, 2014. Dr. Jiang was subsequently appointed by the Board as President and COO on January 5, 2015 and was re-designated and appointed as an Executive Director on the same date. Dr. Jiang has 31 years of experience in the oil and gas industry, including over 25 years of technical and executive management experience in conventional heavy oil and oil sands development. Dr. Jiang served as Vice President, Reservoir and Production Engineering with OSUM Oil Sands Corp. from 2012 to 2014, and Manager from 2008 to 2011. He spent nine years as exploitation engineer and development lead at Canadian Natural Resources Limited, focusing on reservoir and production management for several oil sands development projects including SAGD. Prior to that, Dr. Jiang held technical and managerial positions with PetroChina and GravDrain Inc. that involved design and operation of thermal projects. Dr. Jiang holds a Ph.D. and a M.Sc. in Chemical and Petroleum Engineering from University of Calgary, and B.Sc. in Petroleum Engineering from Southwest Petroleum University. He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGA), a member of the Society of Petroleum Engineers (SPE). Dr. Jiang has over 25 publications related to Steam Assisted Gravity Drainage (SAGD) and alternative technologies.

**Mr. Jin (Jimmy) Hu**, aged 38, was appointed a Non-Executive Director of the Corporation by the Board on June 27, 2014. Mr. Hu was subsequently re-designated appointed as an Executive Director by the Board on July 14, 2014. Mr. Hu also has executive responsibility as Senior Vice President, Corporate Strategies. He is currently the Vice President of Harbin Gloria Pharmaceuticals Co., Ltd. and the Chairman and Chief Executive Officer of Shenzhen YongBangSiHai Private Equity Fund since 2012. He was the Executive Vice President and Chief Financial Officer of China TMK Battery Systems, Inc. from 2010 to 2012 and the financial controller of Johnson & Johnson China Ltd. from 2009 to 2010. From 2000 to 2008, Mr. Hu worked in the United States. Mr. Hu was a consultant with Citi Group from 2008 to 2009, a project lead with Ernst & Young from 2006 to 2008, an accounting professional with McKesson Corporation from 2003 to 2006 and an investment analyst at Stock-Trak Inc. from 2000 to 2003. Mr. Hu obtained an undergraduate major in China CPA from Southwest University of Finance and Economics, the People's Republic of China in 1999, dual Master's degrees in Computer Information Systems and Accounting from Georgia State University, the United States in 2003 and a Master of Business Administration degree from Johnson Graduate School of Management at Cornell University, the United States in 2009.

### NON-EXECUTIVE DIRECTORS (“NEDS”)

**Mr. Haotian Li**, aged 43, 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 Zhesang 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. Hong Luo**, aged 51, has been a Non-Executive Director of the Corporation since November 28, 2014, is currently the executive Vice President of Sinopec Canada and has served in this role since February 2012. Mr. Luo has been appointed as the Chief Executive Officer of the Corporation on December 14, 2014, but his appointment is only effective upon obtaining all necessary immigration approvals. Until such time, Mr. Michael J. Hibberd has performed the functions of the Chief Executive Officer of the Corporation. Mr. Luo has 30 years' experience in the oil and gas industry. Prior to joining Sinopec Canada, Mr. Luo was Director of Strategy and Planning at Sinopec International Petroleum Exploration and Production Corporation (SIPC) from September 2009 to January 2012. From May 2008 to August 2009, Mr. Luo was President of West Africa and Asia-Pacific Exploration and Production Projects and from May 2007 to April 2008, he served as Director of Exploration of SIPC. Mr. Luo was Vice President of the First International Oil Company of SIPC in Kazakhstan from April 2006 to April 2007 and, from April 2004 to March 2006; Mr. Luo was Exploration Manager of Saudi Sinopec Gas Co. (Saudi Arabia). Prior to 2004, Mr. Luo held executive leadership positions in Northwest Oil Company's business units of Sinopec in China, serving in many executive capacities and in numerous geological, engineering, operational and planning roles throughout northwest China and the Tarim Basin. Mr. Luo holds a Bachelor of Geology from the University of Science and Technology of Chengdu, China.

**Mr. Hok Ming Tseung**, aged 53, 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. 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 and Shenzhen Stock Exchange, respectively. Mr. Tseung obtained a postgraduate degree in international economics from the Chinese Academy of Social Sciences in 1998.

## INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDs”)

**Mr. Raymond S. Fong**, aged 68, is an Independent Non-Executive Director appointed on May 9, 2007. Mr. Fong has over 30 years of experience in the oil and gas industry. Mr. Fong is currently an executive director for Palinda International Group Limited. He held previous directorships with China Coal Corporation, Abenteuer Resources Ltd., Stealth Ventures Ltd., Zapata Capital Inc., director and president of Ultra Capital Inc. and a former director of United Rayore Gas Ltd. Mr. Fong obtained a Bachelor of Science degree from the Taiwan Cheng Kung University in 1970, and a Master of Science degree from the Tennessee Technological University in 1971. Mr. Fong is a registered professional engineer in Ontario and Alberta, Canada.

**Mr. Robert J. Herdman**, aged 63, is an Independent Non-Executive Director appointed on July 18, 2011. Mr. Herdman has more than 38 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. Mr. Herdman is also a board member of Zag Bank and Western Financial Group Inc., which voluntarily delisted in 2013 as it no longer has publicly traded securities. He was a member of the governors of the Glenbow Museum. He 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.

**Mr. Gerald F. Stevenson**, aged 71, is an Independent Non-Executive Director appointed on July 15, 2011. Mr. Stevenson has over 36 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 mergers and acquisition 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.

**Mr. Zhefei (Bill) Song**, age 45, is an Independent Non-Executive Director appointed by the Board on June 27, 2014. Mr. Song has extensive experience in the Asian and Canadian oil and gas industry, starting in 1995 through selling equipment in China. Mr. Song's customers included all major players in the Chinese oil and gas industry: China National Offshore Oil Corp (CNOOC), China National Petroleum Corporation (CNPC), and China Petrochemical Corporation (China SINOPEC). Mr. Song established his own company, Admetal Engineering Corp. in Canada in 2001 and co-founded Telamonn Energy Services Inc. in 2012. Mr. Song has previous management experience with Siemens. Mr. Song graduated from Inner Mongolia Polytechnic University in 1992 with a major in mechanical engineering.

## SENIOR MANAGEMENT

**Mr. Qiping Men**, aged 50, was appointed as Interim Chief Financial Officer of the Corporation on July 21, 2014. Prior to joining Sunshine, most recently, Mr. Men was Vice President of Goldenkey Oil Inc., a private oil and gas company based in Calgary, Alberta. Prior thereto, Mr. Men was the Chief Financial Officer and Vice President of each of Anterra Energy Inc. and Sahara Energy Ltd. whose shares are both publicly traded on the TSX Venture Exchange. Mr. Men has a Bachelor's Degree in Mechanical Engineering, is a Professional Engineer and APEGA member. He has an MBA from Dalian University of Technology, has a Canadian CGA designation and is a member of Chartered Professional Accountants of Alberta with a public accountant designation.

**Dr. Songbo Cong**, aged 52, is the Corporation's Senior Vice President, Engineering, and was a director of the Corporation from May 2007 to December 2007. 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 SAGD process modeling and debottlenecking and refinery process optimizations. From June 2000 to December 2007, he served as group manager and advisor for Aspentech (Hyprotech). Prior to 2000, Dr. Cong worked for Matrikon Inc. and Sinopec Inc. as an advanced application engineer.

**Mr. Dong Liu**, aged 46, was appointed as the Senior Vice President in Hong Kong and Canada of the Corporation on May 17, 2012. Before he joined the Corporation, he had been with Orient International for over seven 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 and acquisition transactions.

**Mr. Bob Gerwing**, aged 54, was appointed as Vice President, Facilities Engineering on January 18, 2015. Mr. Gerwing, has over 31 years of experience in the oil and gas industry, including over 20 years of broad experience in heavy oil and oil sands development. Mr. Gerwing spent the last nine months as a consultant with RFG Oilfield Engineering Ltd. focused on energy projects that required advice on timeline management, reliability requirements and cost management. Prior to that, Mr. Gerwing was employed in various roles with Athabasca Oil Corporation from May 2008 to March 2014. He acted as General Manager, Engineering from August 2011 to March 2014. Prior to that, he was Director, Facilities and Development at Dover Opco managing engineering, projects, infrastructure and development teams. From September 2005 to May 2008, Mr Gerwing worked at Canadian Natural Resources Limited in Thermal and Upgrader projects. Prior to that, he spent five and a half years with RFG Oilfield Engineering Ltd. as a Thermal Facilities consultant. He also worked at AMOCO and BP's Wolf Lake and Primrose Thermal Heavy Oil Facilities from 1995 to 2000. Mr. Gerwing holds a Bachelor of Engineering Degree, Mechanical Engineering, from The University of Saskatchewan (1995). He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and a member of the Canadian Heavy Oil Association.

**Mr. Al Stark**, aged 49, 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 Vice President 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 30, 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.

The Board of Directors (“the Board”) of the Corporation is pleased to present this Corporate Governance Report for the year ended December 31, 2014. 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”) save as discussed below. The Corporation confirms its compliance with the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules since the Listing Date, save as discussed below that the Corporation has not yet entered into formal letters of appointment with its directors and therefore has deviated from Code Provision D.1.4 of the Code. The Corporation has deviated from Code Provision D.1.4 of the Code since each of the Directors will be elected on an annual basis at each annual general meeting, which is consistent with market practice in Canada.

The Corporation has also deviated from Code Provision A.5.1 which states that the Corporation should establish a nomination committee (performing a role similar to the Corporation’s corporate governance committee) which is chaired by the chairman of the Board or an Independent Non-Executive Director and comprises a majority of Independent Non-Executive Directors. The corporate governance committee is chaired by the Executive Vice-Chairman and consists of two Non-Executive Directors. See the corporate governance committee section below for further details on the reasons for deviation from the Code and the Corporation’s plans to return this committee in compliance with Code Provision A.5.1.

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, 2014, 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 3.13 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 operating budget and capital expenditure budget; the hiring or dismissal of the Chief Executive Officer, the Chief Financial Officer, a 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	Executive Vice-Chairman and Director (“ED”) and Chief Executive Officer
Dr. Qi Jiang	Executive Director, President and Chief Operating Officer
Mr. Jin (Jimmy) Hu	Executive Director
Mr. Tingan Liu	Non-Executive Chairman and Director (“NED”) and Joint Company Secretary
Mr. Haotian Li	Non-Executive Director
Mr. Hong Luo	Non-Executive Director
Mr. Hok Ming Tseung	Non-Executive Director
Mr. Raymond S. Fong	Independent Non-Executive Director (“INED”)
Mr. Robert J. Herdman	Independent Non-Executive Director
Mr. Gerald F. Stevenson	Independent Non-Executive Director
Mr. Zhefei (Bill) Song	Independent Non-Executive Director

## Practices and Conduct of Meetings

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

Minutes of the Board and committee meetings are kept by the Joint Company Secretaries, who are the Corporation’s corporate secretaries in each of Canada and Hong Kong.

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 Directors 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 Directors was elected on June 25, 2014 with the exception of Mr. Zhefei (Bill) Song, who was appointed as a Director on June 27, 2014, Mr. Hong Luo, who was appointed as a Director on November 28, 2014 and Dr. Qi Jiang, who was appointed as a Director on December 15, 2014. Each Director is 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 controls. To assist it in fulfilling its duties, the Board has established four board committees: (1) the audit committee, (2) the compensation committee, (3) the corporate governance committee and (4) the reserves committee.

### Audit Committee

The Board established an audit committee on January 9, 2008 and adopted written terms of reference that set out the authority and duties of the committee, which have been revised from time to time since then. The audit committee currently consists of four members, namely Mr. Robert J. Herdman (Chairman of the audit committee and INED), Mr. Gerald F. Stevenson (INED), Mr. Raymond S. Fong (INED) and Mr. Zhefei (Bill) Song (INED).

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

All members have sufficient experience in reviewing audited financial statements as aided by the independent external auditors of the 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 several meetings of the audit committee held during the year ended December 31, 2014. The following is a summary of the work performed by the audit committee during 2014:

- reviewed the scope of the audit of the consolidated financial statements of the Corporation for the year ended December 31, 2014, as well as the fee proposal for such audits;
- reviewed the interim consolidated financial statements for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014, 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;
- reviewed capital budgets as presented by senior management on a quarterly basis; and
- reported to the Board on the meetings of the audit committee.

During 2014, the audit committee also performed duties in connection with 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.

### Corporate Governance Committee

The Board established a corporate governance committee on January 9, 2008 and adopted written terms of reference that set out the authority and duties of the committee, which have been revised from time to time since then. The corporate governance committee currently consists of three members, namely Mr. Michael J. Hibberd (Chairman of the corporate governance committee and ED), Mr. Tingan Liu (NED) and Mr. Haotian Li (NED). Mr. Robert J. Herdman, Mr. Gerald F. Stevenson, Mr. Raymond S. Fong and Mr. Wazir Seth ceased to be members of the corporate governance committee in 2014.

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 Non-Executive Chairman and the Executive Vice-Chairman, and the Chief Executive Officer and assessing the independence of Independent Non-Executive Directors. Further, the corporate governance committee has certain duties in respect of other corporate governance matters, including, to consider 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 as set out in the Listing Rules. Going forward, the corporate governance committee will meet at least once a year to discharge its responsibilities.

As mentioned in the introduction of this corporate governance report, the Corporation has deviated from Code Provision A.5.1 which provides that the Corporation's corporate governance committee should be chaired by the chairman of the Board or an Independent Non-Executive Director and comprised of a majority of Independent Non-Executive Directors. The corporate governance committee is chaired by the Executive Vice-Chairman and comprises two Non-Executive Directors. The Corporation is of the view that the current members of the corporate governance committee are influential and important in setting the key direction of the Corporation at this time. The Corporation also encourages all Board members to sit on at least one of the Corporation's committees. The expertise of the current members of this committee is important to the Corporation at this time, but the Board will endeavour to return the composition of this committee to a majority of Independent Non-Executive Directors and to be chaired by either the chairman of the Board or an Independent Non-Executive Director in accordance with the Code within a reasonable time after the next annual general meeting.

## **Compensation Committee**

The Corporation established a compensation committee on January 9, 2008 and adopted written terms of reference that set out the authority and duties of the committee. The compensation committee currently consists of five members, namely Mr. Robert J. Herdman (Chairman of the compensation committee and INED), Mr. Hok Ming Tseung (NED), Mr. Raymond S. Fong (INED), Mr. Jin (Jimmy) Hu (ED) and Mr. Zhefei (Bill) Song (INED). Mr. Gregory Turnbull and Mr. Gerald F. Stevenson ceased to be members of the compensation committee in 2014. The compensation committee currently 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 of the Corporation.

## **Reserves Committee**

The Corporation established a reserves committee on January 9, 2008 and adopted written terms of reference that set out the authority and duties of the committee. The reserves committee currently consists of three members, namely Mr. Gerald F. Stevenson (Chairman of the reserves committee and INED), Mr. Raymond S. Fong (INED), and Dr. Qi Jiang (ED). Mr. Wazir Seth and Mr. Songning Shen ceased to be members of the reserves committee in 2014.

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.

## MEETINGS OF THE BOARD AND COMMITTEES OF THE BOARD

There were 19 meetings of the Board held during the year ended December 31, 2014. The following is the attendance record of the Board and committee meetings held during the year, which can be participated either in person or through electronic means of communication:

	Board of Directors	Reserve Committee	Audit Committee	Compensation Committee	Corporate Governance Committee
Mr. Michael J. Hibberd <sup>1</sup>	19/19	—	—	—	3/3
Mr. Jin (Jimmy) Hu <sup>2</sup>	9/9	—	—	1/1	—
Mr. Songning Shen <sup>3</sup>	11/11	1/1	—	—	—
Mr. Hok Ming Tseung	13/19	—	—	2/2	—
Mr. Tingan Liu <sup>4</sup>	11/19	—	—	—	2/3
Mr. Haotian Li	6/19	—	—	—	2/3
Mr. Gregory Turnbull <sup>5</sup>	17/17	—	—	1/1	—
Mr. Mike Seth <sup>6</sup>	11/11	1/1	2/2	—	0/1
Mr. Zhefei (Bill) Song <sup>2</sup>	9/9	—	2/2	—	—
Mr. Robert J. Herdman <sup>7</sup>	18/19	—	6/6	2/2	1/1
Mr. Gerald F. Stevenson <sup>7</sup>	19/19	4/4	6/6	1/1	1/1
Mr. Raymond S. Fong <sup>7</sup>	19/19	4/4	6/6	2/2	1/1
Dr. Qi Jiang <sup>8</sup>	1/1	1/1	—	—	—
Mr. Hong Luo <sup>9</sup>	2/2	—	—	—	—

### Notes:

1. Mr. Hibberd became Executive Vice Chairman on November 28, 2014
2. Mr. Hu and Mr. Song were appointed to the Board as Non-Executive Director and Independent Non-Executive Director, respectively, on June 27, 2014. Mr. Hu was subsequently re-designated and appointed as an Executive Director and Senior Vice President, Corporate Strategies on July 14, 2014
3. Mr. Shen resigned as Co-Chairman on June 27, 2014 and resigned from the Board on July 7, 2014
4. Mr. Liu became Non-Executive Chairman on November 28, 2014
5. Mr. Turnbull resigned from the Board on November 28, 2014
6. Mr. Seth resigned from the Board on July 7, 2014
7. Mr. Herdman and Mr. Fong ceased to be members of the Corporate Governance Committee in 2014 and Mr. Stevenson ceased to be a member of both the Corporate Governance Committee and the Compensation Committee in 2014
8. Dr. Jiang became a Non-Executive Director on December 15, 2014 and was re-designated and appointed as an Executive Director on January 5, 2015
9. Mr. Luo became a Non-Executive Director on November 28, 2014

Each INED has provided the Corporation with an annual confirmation of his 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 management believe in the HSE principle of “Safety First” and the Corporation has a good safety record. In 2014, 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.

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

## 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 the 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 NEDs received Directors’ fees and Board committee retainers in 2014.

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

At the Annual General Meeting of Shareholders of the Corporation held on June 25, 2014, shareholders approved the option of paying 50% of the Directors’ base retainer fees to Directors in shares in lieu of cash in respect of the period from October 1, 2013 to June 30, 2014 and future base retainer fees. Shareholders also approved the option of payment of 50% of the base fees payable to the Co-Chairmen of the Corporation in shares in lieu of cash in respect of the period from April 1, 2014 to June 30, 2014 and in relation to future base Co-Chairman fees.

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

Remuneration of the Directors (including retainers, fees, salaries, discretionary bonuses, and other benefits including share based payments) was approximately \$3.3 million for the year ended December 31, 2014 (2013 - \$8.5 million).

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

## DIRECTORS’ 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 to the Listing Rules.

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

The interest of Directors' and Chief Executive Officer in the Corporation's shares as at December 31, 2014 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, 2014 provided by Deloitte, the independent external auditors of the Corporation, were as follows:

<b>Nature of services rendered</b>	<b>Fees paid/payable</b>
Audit fees	\$284,500
Non-audit fees	\$ 20,200
<b>Total</b>	<b>\$304,700</b>

Audit fees were incurred in connection with the following services:

- Audit of the Corporation's annual financial statements;
- Audit of Sunshine Oilsands (Hong Kong) Ltd. financial statements;
- Reviews of the Corporation's interim financial statements;
- Assessment of the design and testing of the effectiveness of internal controls; and
- Involvement with public offering documents.

Non-audit fees were incurred in connection with the following services:

- 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:

1. 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
2. Selecting suitable accounting policies and applying them consistently with the support of reasonable judgment and estimates.

The Board ensures the timely publication of the financial statements of the 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, 2014, the Corporation reported a net loss of \$26.8 million (2013 - \$32.8 million). At December 31, 2014, the Corporation had positive working capital of \$138.2 million (2013 – negative working capital of \$103.2 million) and an accumulated deficit of \$227.7 million (2013 - \$200.9 million). The Corporation's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to access additional financing. As such there is significant doubt and there can be no assurance the Corporation will be able to continue as a going concern.

## INTERNAL CONTROLS

The Board places great importance on internal controls 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 an ongoing basis. Since the Corporation does not have an internal audit function, the Corporation engaged the external auditor to complete an assessment of the design and effectiveness of its internal control system for the year ended December 31, 2014. The audit plans are discussed and agreed to for 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, 2014. 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 Mr. Michael J. Hibberd, Executive Vice-Chairman of the Board performing the functions of Chief Executive Officer, and Mr. Qiping Men, Interim 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 controls system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2014 was conducted with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Corporation's internal control system against the five components of internal control: 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 budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the audit committee and the Board.

## 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](http://www.sunshineoilsands.com), and certain of these documents are also available on the website of The Stock Exchange of Hong Kong Limited, [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of SEDAR, [www.sedar.com](http://www.sedar.com).

The Corporation encourages its shareholders to attend the Corporation's annual general 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 next annual general meeting of shareholders of the Corporation will be held on June 24, 2015 at 8:00 a.m. in Hong Kong.

## SHAREHOLDERS RIGHTS

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

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

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

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

The last annual general meeting of shareholders of the Corporation (the "Meeting") was held at 8:00 a.m. on June 25, 2014 (Hong Kong time) in the Regus Conference Centre, PLAZA meeting room, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong:

1. to receive and consider the audited financial statements of the Corporation as at and for the financial year ended December 31, 2013, and the report of the Board and the report of the auditor thereon;
2. to fix 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 the refreshing of the ten percent (10%) mandate under the Corporation's Post IPO Share Option Scheme (the "Refreshed Scheme Mandate"), as more particularly described in the Corporation's information circular dated May 16, 2014 in respect of the Meeting (the "Circular");
6. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the payment of 50% of the Base Retainer Fees (as defined in the Circular) to the Directors in Class "A" Common Voting Shares of the Corporation (the "Shares") in lieu of cash pursuant to the Director Share Compensation Arrangement (as defined in the Circular) in respect of the period from October 1, 2013 to June 30, 2014, as more particularly described in the Circular;
7. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the payment of 50% of the Base Co-Chairman Fees (as defined in the Circular) to the Co-Chairmen in Shares in lieu of cash pursuant to the Director Share Compensation Arrangement (as defined in the Circular) in respect of the period from April 1, 2014 to June 30, 2014, as more particularly described in the Circular;
8. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the payment of 50% of the future Base Retainer Fees (as defined in the Circular) to the Directors in Shares in lieu of cash pursuant to the Director Share Compensation Arrangement (as defined in the Circular), as more particularly described in the Circular;

9. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the payment of 50% of the future Base Co-Chairman Fees (as defined in the Circular) to the Co-Chairmen in Shares in lieu of cash pursuant to the Director Share Compensation Arrangement (as defined in the Circular), as more particularly described in the 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 allot, issue and otherwise deal with un-issued Shares not exceeding twenty percent (20%) of its issued share capital, as more particularly described in the Circular;
11. 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 Circular; and
12. to transact such other business as may properly come before the Meeting or any adjournment or adjournments thereof.

As at May 12, 2014, which was the record date for determining the shareholders who were entitled to receive the notice of, and to attend and vote at, the Meeting, the total number of issued and outstanding Shares of the Corporation was 3,249,916,204 Shares. There were no restrictions on the holders of the Shares to attend and vote for or against the resolutions proposed at the Meeting. There were no Shares entitling the Shareholders to attend and abstain from voting in favour of any of the proposed resolutions at the Meeting as set out in Rule 13.40 of the Listing Rules. Directors who were shareholders of the Corporation abstained from voting in respect of the applicable resolutions approving the Director Share Compensation Arrangement (as defined in the Circular). No parties indicated in the Circular that they intended to vote against or, except as noted above, to abstain from voting on any resolutions at the Meeting.

All resolutions above were duly passed by the shareholders of the Corporation and there was no other business that came before the Meeting other than as described above.

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, 2014 together with comparative figures for the corresponding period in 2013.

## 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 subsidiary as at December 31, 2014, are set out in note 1 to the consolidated financial statements. The activities of the principal wholly-owned subsidiary of the Corporation as at December 31, 2014 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, China	HK\$100	Management services

## RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

The results of the Corporation for the financial year ending December 31, 2014 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 ending December 31, 2014.

## SEGMENT INFORMATION

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

## PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Corporation during the year ended December 31, 2014 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, 2014 are set out in the consolidated statement of changes in shareholders' equity.

## DISTRIBUTABLE RESERVES

As at December 31, 2014, reserves available for distribution to shareholders amounted to approximately \$972.0 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 Alberta Business Corporations Act.

## SHARE CAPITAL

Details of movements in share capital of the Corporation during the year ended December 31, 2014 are set out in the consolidated statement of changes in shareholders' equity in this Annual Report.

## DIRECTORS

As at December 31, 2014 and up to the date of this annual report, the composition of the Board was as follows:

### Executive Directors

Mr. Michael J. Hibberd (*Vice-Chairman*)  
Dr. Qi Jiang  
Mr. Jin (Jimmy) Hu

### Non-Executive Directors

Mr. Tingan Liu (*Chairman*)  
Mr. Haotian Li  
Mr. Hong Luo  
Mr. Hok Ming Tseung

### Independent Non-Executive Directors

Mr. Raymond S. Fong  
Mr. Robert J. Herdman  
Mr. Gerald F. Stevenson  
Mr. Zhefei (Bill) Song

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 2015 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, 2014.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES AND SHARE OPTIONS

As at December 31, 2014, the interests and short positions of the Directors and the chief executive 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 (Chapter 571 of the Laws of Hong Kong) (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 to the Listing Rules were as follows:

### Common shares

Name	Company	Nature of Interest	Number of common shares held	Approximate % interest in the Common Shares
Mr. Tingan Liu	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/indirect	98,349,585	2.52%
Dr. Qi Jiang	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Jin (Jimmy) Hu	Sunshine Oilsands Ltd.	Direct	43,478	0.00%
Mr. Hok Ming Tseung	Sunshine Oilsands Ltd.	Direct/indirect	295,383,656	7.58%
Mr. Haotian Li	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct/indirect	8,250,621	0.21%
Mr. Robert Herdman	Sunshine Oilsands Ltd.	Direct	150,621	0.00%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	Direct	184,621	0.00%
Mr. Zhefei (Bill) Song	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Hong Luo	Sunshine Oilsands Ltd.	Direct	—	0.00%

## 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 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. As of December 31, 2014, the options held by Directors and the chief executive of the Corporation was as follows:

**Stock options**

<b>Name</b>	<b>Company</b>	<b>Nature of Interest</b>	<b>Number of stock options held</b>	<b>Approximate % interest in the Options</b>
Mr. Tingan Liu	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct	14,160,000	10.43%
Dr. Qi Jiang	Sunshine Oilsands Ltd.	Direct	10,000,000	7.37%
Mr. Jin (Jimmy) Hu	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Hok Ming Tseung	Sunshine Oilsands Ltd.	Direct	1,510,000	1.11%
Mr. Haotian Li	Sunshine Oilsands Ltd.	Direct	1,510,000	1.11%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct	910,000	0.67%
Mr. Robert Herdman	Sunshine Oilsands Ltd.	Direct	1,510,000	1.11%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	Direct	1,510,000	1.11%
Mr. Zhefei (Bill) Song	Sunshine Oilsands Ltd.	Direct	—	0.00%
Mr. Hong Luo	Sunshine Oilsands Ltd.	Direct	3,000,000	2.21%

Save as disclosed above, as at December 31, 2014, none of the Directors or the chief executive 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.

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Corporation during 2014.

## Movements in Stock options

Name	Outstanding, beginning of year	Granted	Exercised	Forfeited	Expired	Outstanding end of year
Mr. Tingan Liu	—	—	—	—	—	—
Mr. Michael Hibberd	16,140,000	—	—	—	(1,980,000)	14,160,000
Dr. Qi Jiang <sup>1</sup>	—	10,000,000	—	—	—	10,000,000
Mr. Jin (Jimmy) Hu <sup>2</sup>	—	—	—	—	—	—
Mr. Hok Ming Tseung	1,510,000	—	—	—	—	1,510,000
Mr. Haotian Li	1,510,000	—	—	—	—	1,510,000
Mr. Raymond Fong	910,000	—	—	—	—	910,000
Mr. Robert Herdman	1,510,000	—	—	—	—	1,510,000
Mr. Gerald Stevenson	1,510,000	—	—	—	—	1,510,000
Mr. Zhefei (Bill) Song <sup>3</sup>	—	—	—	—	—	—
Mr. Hong Luo <sup>4</sup>	—	3,000,000	—	—	—	3,000,000
Mr Songning Shen <sup>5</sup>	16,140,000	—	—	—	(1,980,000)	14,160,000
Mr. Wazir (Mike) Seth <sup>6</sup>	910,000	—	—	(370,000)	(540,000)	—
Mr. Gregory Turnbull <sup>7</sup>	1,010,000	—	—	(910,000)	(100,000)	—
<b>Sub-total for Directors</b>	<b>41,150,000</b>	<b>13,000,000</b>	<b>—</b>	<b>(1,280,000)</b>	<b>(4,600,000)</b>	<b>48,270,000</b>
<b>Executive Management <sup>8,9</sup></b>	<b>24,666,533</b>	<b>7,433,848</b>	<b>—</b>	<b>(6,166,668)</b>	<b>(14,866,665)</b>	<b>11,067,048</b>
<b>Sub-total for other share option holders</b>	<b>69,329,060</b>	<b>50,186,092</b>	<b>—</b>	<b>(9,967,318)</b>	<b>(33,157,593)</b>	<b>76,390,241</b>
<b>Total</b>	<b>135,145,593</b>	<b>70,619,940</b>	<b>—</b>	<b>(17,413,986)</b>	<b>(52,624,258)</b>	<b>135,727,289</b>

### Notes:

- Dr. Jiang joined Sunshine on December 15, 2014 as a Non-Executive Director. Dr. Jiang was subsequently re-designated and appointed as an Executive Director on January 5, 2015
- Mr. Hu joined Sunshine on June 27, 2014 as a Non-Executive Director. Mr. Hu was subsequently re-designated and appointed as an Executive Director and Senior Vice President, Corporate Strategies on July 14, 2014
- Mr. Song joined Sunshine on June 27, 2014 as an Independent Non-Executive Director.
- Mr. Luo joined Sunshine on November 28, 2014 as a Non-Executive Director.
- Mr. Shen was a founder of Sunshine in February 2007 and a Board member until his resignation on July 7, 2014. After his resignation as a Board member, Mr. Shen was retained by Sunshine as an advisor.
- Mr. Seth was a Board member from September 2008 until the time of his resignation on July 7, 2014.
- Mr. Turnbull was a Board member from August 2007 until the time of his resignation on November 28, 2014.
- The Corporation granted a total of 7,433,848 options to Mr. Qiping Men, Interim Chief Financial Officer (2,555,556), Mr Dong Liu, Senior Vice President, Hong Kong & Canada (2,322,736) and Mr. Songbo Cong, Senior Vice President, Engineering (2,555,556).
- Forfeitures and expired options represent previous executive management who resigned or were terminated.

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, 2014. Please refer to our consolidated financial statements (note 14) included in this Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2014.

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

As at December 31, 2014, 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	Common Shares Held	Approximate % interest in the Common Shares <sup>(1)</sup>
Xie Bing	Beneficial	460,000,000	11.81%
China Life Insurance	Beneficial	386,802,600	9.93%
Goldview Development Ltd.	Beneficial	266,666,640	6.84%
Sinopec Century Bright Capital Investment Limited	Beneficial	239,197,500	6.14%
Premium Investment Corporation	Beneficial	228,197,500	5.86%
Charter Globe Limited	Beneficial	206,611,560	5.30%

Note:

- All positions are long positions.

Save as disclosed above, as at December 31, 2014, so far as the Directors are aware, no other persons (except the Directors or chief executives) 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 executives of the Corporation is set up by the Compensation Committee on the basis of merit, qualifications and competence. The emolument policy for the rest of employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the Directors of the 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, 2014, the Corporation had no loans outstanding that were repayable upon demand within one year. Note 10 of the consolidated financial statements discloses the Corporation's long-term debt which relates to the US\$200 million senior secured note offering which closed on August 8, 2014.

## MAJOR CUSTOMERS AND SUPPLIERS

### Customers

The Corporation did not have any sales income or customers for the year ended December 31, 2014.

### Suppliers

The largest supplier accounted for 8% of the Corporation's purchases. The five largest suppliers accounted for 23% of the Corporation's purchases for the year ended December 31, 2014.

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.

## 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.

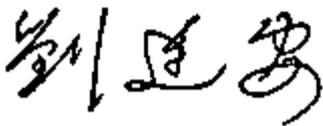
## PUBLIC FLOAT

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



Tingan Liu  
Chairman of the Board  
April 21, 2015

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, 2014 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, 2014. 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 Athabasca region oil sands resources with approximately 3.6 billion barrels of best estimate contingent resources, 436 million barrels of proved plus probable ("2P") reserves and 602 million barrels of proved plus probable plus possible ("3P") reserves. The Company has significant commercial development potential. 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. Canadian oil sands represent the largest single source of supply of oil imported into the United States.

The Company's focus is on evaluating and developing its oil sands assets with the first significant 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 is designed to 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. Construction activities were suspended in August 2013 pending receipt of additional financing and re-commenced after closing of an issuance of US\$200 million of senior secured notes in August of 2014 as described below. Sunshine maintained staff at site during the suspension to continue with reduced work activities and to ensure safety of the worksite.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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 was terminated on August 18, 2014, based on the closing of the following transactions:

- From December, 2013, to February, 2014 the Company closed private placement Unit offerings totalling 288,042,193 Units at a price of HK\$ 1.70 per Unit (approximately \$0.24/Unit) for total gross proceeds of HK\$ 489.7 million (approximately \$ 68.7 million). Each Unit consisted of one Class "A" common share and one-third of one Class "A" common share purchase warrant. This resulted in an issuance of 288,042,193 Class "A" common shares and 211,230,941 Class "A" common share purchase warrants.
- The Company closed a private placement offering of Class "A" common share in June, 2014, for a total of 640,000,000 Class "A" common shares at a price of HK\$ 0.85 per share (approximately \$0.12 per share) for gross proceeds of HK\$ 544.0 million or approximately \$75.4 million.
- On July 17, 2014, the Company entered into a petroleum, natural gas and general conveyance agreement for the sale of certain non-core oilsands assets which relate to, among other things, lands and petroleum and natural gas rights to a third party for total consideration of \$20.0 million. The disposal was conducted between the parties on an arm's length basis. The sale was completed on July 21, 2014.
- On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the "Notes") at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a final maturity date of August 1, 2017. The Notes are senior secured obligations over the Company's assets.

After the transactions were completed by the Company, construction of the West Ells SAGD project re-commenced.

As at December 31, 2014, the Company had invested approximately \$1.1 billion in oil sands leases, drilling operations, project engineering, procurement and construction, regulatory application processing and other assets. As at December 31, 2014, the Company had \$136.1 million in cash and \$35.1 million in restricted cash and cash equivalents.

The Company relies on its ability to obtain various forms of financing to fund administration expenses and future exploration and development cost 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 West Ells construction and completion of one or more financings, farmouts or monetizations of assets. There is no certainty that these and other financing activities will be successful.

## OPERATIONAL UPDATE

### West Ells

Construction of Phase 1 and 2 of Sunshine's West Ells steam assisted gravity drainage ("SAGD") 10,000 barrel per day project was suspended in August 2013. Following the August 2014 debt closing, Sunshine terminated its strategic alternatives review process and refocused on achieving completion of Phase 1, the first 5,000 barrels per day from the West Ells Project. For the year ended December 31, 2014, the Company achieved progress in the following areas:

- Expanded the Project Management Team, the most important new hire being a new Senior Project Manager for Facilities Engineering with extensive SAGD operations and engineering procurement and construction experience;
- Substantially completed investigational analysis of work done and formalized plans to complete Phase 1 construction of the West Ells SAGD project;
- Conducted quality assurance and quality control inspections;
- Completed preparations for construction recommencement;

- Reopened our 250 man construction camp at West Ells to support full operational capability;
- Engaged major contractors (mechanical, electrical and civil) to support West Ells project execution;
- Resumed full construction of Phase 1 of West Ells in October 2014;
- Received 52 of 65 major modules at the West Ells site during 2014; and
- Achieved planned progress in construction activities.

In Sunshine's results for nine month period ended September 30, 2014, the following milestones were outlined for recommencement of West Ells construction based on the project recommencing in October 2014, for initiation of first steam in the first quarter of 2015 and for production in the third quarter of 2015:

- Completion of construction, assuming no interruptions or delays;
- Site commissioning and start-up of steam injection operations; and
- Steam injection until first oil production is achieved.

Subsequent to year end, after an extensive review by our Management team, to maximize productivity and cost efficiency, Sunshine reduced peak on-site personnel and extended the commissioning and start-up schedule for West Ells. The new estimated date for first steam at West Ells Phase 1 is late June 2015. We currently anticipate the first production date to be in September 2015, based on the following assumptions:

- Completion of construction and commissioning for start-up of steam injection operations in June 2015; and
- Approximately 12 weeks of steam injection until first oil production is achieved.

Although adverse weather conditions could cause minor delays, we currently expect to remain on this revised schedule.

## **Thickwood and Legend**

The Thickwood and Legend projects are each planned for initial first phase production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2015.

Once the Thickwood and Legend projects are sanctioned for development and construction, and additional financing is secured, 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Renergy operates the assets under the JOA as the Operator. In return for a 50% working interest, Renergy agreed to fund 100% of the initial joint operations conducted on the lands up to a maximum of \$250 million (the "Commitment Cap"), which funding is to 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"). 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 working interest transfer has not resulted in any accounting gain or loss.

Sunshine continues to work with Renergy on short term and long term planning and thermal technology evaluation for potential use in the Muskwa and Godin areas. The first thermal single well pilot project application was submitted in July, 2014, and approved subsequent to year end on January 26, 2015. During the 3 months ended December 31, 2014, Muskwa cold production wells were suspended due to low oil prices.

## 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 International Financial Reporting Standards (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. Cash flow used in operations is a non-GAAP measure that adjusts a GAAP measure (net cash used in operating activities) for changes in non-cash working capital.

## Operational and Financial Highlights

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

Financial Highlights	For the three months ended		For the year ended		
	December 31,		December 31,		
	2014	2013	2014	2013	2012
Other income	\$ 401	\$ 661	\$ 13,093	\$ 2,219	\$ 12,228
Expensed portion of IPO costs	—	—	—	—	16,258
Finance costs	8,735	743	15,916	4,775	20,237
Net loss	12,280	7,515	26,767	32,780	61,728
Basic and diluted loss per share	0.00	0.00	0.01	0.01	0.02
Payments for exploration and evaluation assets	1,433	(3,943)	5,232	12,745	229,382
Payments for property, plant and equipment	26,077	46,644	140,978	270,508	740

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2014, the Company had a net loss of \$12.3 million and \$26.8 million compared to \$7.5 million and \$32.8 million in 2013, respectively. The net loss for the three months and year ended December 31, 2014 was primarily attributable to general administration costs of \$3.5 million and \$15.9 million, \$0.7 million and \$2.5 million for share-based payment expense, finance costs of \$8.7 million and \$15.9 million respectively, and \$(0.4) million and \$4.8 million of suspension costs offset by a gain of \$5.0 million and \$8.2 million on the fair value adjustment on share purchase warrants, and \$Nil and \$13.3 million on the sale of assets. For the three months and year ended December 31, 2013, the net loss was due primarily due 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, 2013.

	2014	2013	2012
Cash and cash equivalents	\$ 136,097	\$ 15,854	\$ 282,231
Current restricted cash and cash equivalents	23,467	—	—
Non-current restricted cash and cash equivalents	11,601	—	—
Working capital (deficiency)/surplus	138,249	(103,182)	215,471
Total assets	1,260,060	1,029,388	979,726
Total liabilities	288,044	148,415	108,650

At December 31, 2014, the Company had a cash balance of \$171.2 million, including restricted cash, compared to \$15.9 million at December 31, 2013. The increase of \$155.3 million in the cash balance can be primarily attributed to net cash provided from financing activities of \$329.9 million offset by payments of \$5.2 million in exploration and evaluation assets, payments of \$141.0 million for property, plant and equipment, and \$31.8 million used in corporate operating activities. At December 31, 2014, the Company's working capital surplus was \$138.2 million, a significant increase from \$103.2 million working capital deficiency at December 31, 2013. The increase in working capital of \$241.4 million is primarily due to the completed offerings of \$119.1 million of equity and US\$200 million senior secured notes in August 2014 and a decrease in trade and accrued liabilities of \$92.0 million for the year ended December 31, 2014.

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

	For the three months ended		For the year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net loss	\$ (12,280)	(7,515)	(26,767)	(32,780)
Finance costs	8,735	743	15,916	4,775
Unrealized foreign exchange loss/(gain)	5,034	101	8,972	(49)
Interest income	(442)	(761)	(789)	(2,170)
Gain on sale of assets	—	—	(13,265)	—
Fair value adjustment on share purchase warrants	(5,022)	—	(8,201)	—
Depreciation	158	153	698	483
Share-based payment expense	710	2,075	2,531	9,298
Employee share savings plan	121	139	419	365
Cash flow used in operations	(2,986)	(5,065)	(20,486)	(20,078)

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 finance costs, share-based payments, unrealized portion of foreign exchange adjustments, depreciation, interest income, fair value adjustment on share purchase warrants and employee share savings plan.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash flow used in operations in the three months and year ended December 31, 2014 totalled \$3.0 million and \$20.5 million compared to \$5.1 million and \$20.1 million for the same periods in 2013. The decrease of \$2.1 million for the fourth quarter of 2014 compared to the same period in 2013, is primarily due to a decrease of \$3.1 million in suspension costs related to the West Ells project, and a decrease of \$1.0 million of professional fees, partially offset by an increase in salaries, consulting and benefits of \$2.2 million. For the year ended December 31, 2014, the increase in cash flow used in operations was \$0.4 million due to an increase of \$2.1 million of suspension costs related to the West Ells project, and an increase of \$11.1 million of finance costs, partially offset by a decrease in salaries, consulting and benefits of \$2.6 million and a decreased in share-based payment expense of \$6.8 million compared to the same period in 2013.

## 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 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Other income	401	6,465	2,393	3,834	661	118	622	818
Finance costs	8,735	2,031	3,279	1,871	743	1,475	816	1,741
Net loss for the period	12,280	1,337	8,897	4,253	7,515	8,681	8,327	8,257
Loss per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital investments	27,510	31,987	54,509	32,204	42,701	53,324	101,336	85,892

## RESULTS OF OPERATIONS

### Finance Expense

	For the three months ended December 31,		For the year ended December 31,	
	2014	2013	2014	2013
Interest expense on senior secured notes	\$ 5,678	\$ —	\$ 8,909	\$ —
Amortization of financing transaction costs	2,611	—	4,259	—
Finance cost on credit facility	—	—	—	1,541
Financing related costs	—	1,126	1,720	2,597
Other Interest expense	245	—	267	—
Unwinding of discounts on provisions	201	(383)	761	637
	<u>8,735</u>	<u>743</u>	<u>15,916</u>	<u>4,775</u>

For the three month period ended December 31, 2014, finance expense increased by \$8.0 million primarily as a result of \$5.7 million of interest expense on senior secured notes and \$2.6 million of amortization of financing transaction costs, compared to the same period in 2013. Finance expense for the twelve month period ended December 31, 2014 increased by \$11.1 million to \$15.9 million from \$4.8 million during the same period in 2013, primarily due to \$8.9 million of interest expense on senior secured notes and \$4.3 million of amortization of financing transaction costs, partially offset by \$1.5 million of finance costs on the credit facility and \$0.6 million of other financing related costs (legal, other professional expenses and interest expenses).

## GENERAL AND ADMINISTRATIVE COSTS

### For the three months ended December 31,

	2014			2013		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	3,212	1,161	2,051	1,594	1,761	(167)
Rent	574	252	322	771	426	345
Legal and audit	405	—	405	1,385	—	1,385
Other general and administrative	761	58	703	1,085	97	988
	<u>4,952</u>	<u>1,471</u>	<u>3,481</u>	<u>4,835</u>	<u>2,284</u>	<u>2,551</u>

### For the year ended December 31,

	2014			2013		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	13,349	5,997	7,352	18,645	8,725	9,920
Rent	2,309	1,054	1,255	2,414	1,346	1,068
Legal and audit	2,648	—	2,648	2,304	—	2,304
Other general and administrative	4,882	211	4,671	5,011	512	4,499
	<u>23,188</u>	<u>7,262</u>	<u>15,926</u>	<u>28,374</u>	<u>10,583</u>	<u>17,791</u>

General and administrative costs, which include salaries, consulting and benefits, rent, and other general administrative costs, for the three month period ended December 31, 2014 increased by \$0.1 million to \$5.0 million compared to \$4.8 million for the same period in 2013. For the year ended December 31, 2014, general and administrative costs decreased by \$5.2 million to \$23.2 million compared to \$28.4 million for the same period in 2013. The decrease in expense was primarily due to a decrease in salaries, consulting and benefits of \$5.3 million. The decrease is primarily attributed to a reduction in the staffing levels during the suspension period. During the three months and year ended December 31, 2014, the Company capitalized salaries, consulting and benefits, rent and other general administrative costs related to capital investment of \$1.5 million and \$7.3 million compared to \$2.3 million and \$10.6 million for the same periods in 2013, respectively.

Legal and audit has been included in general and administrative costs for the three months and year ended December 31, 2014, and the comparison to those for the same period in 2013 have been adjusted accordingly.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## SHARE-BASED PAYMENTS

For the three months ended December 31,

	2014			2013		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based payments expense	<u>1,015</u>	<u>305</u>	<u>710</u>	<u>2,717</u>	<u>642</u>	<u>2,075</u>

For the year ended December 31,

	2014			2013		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based payments expense	<u>3,472</u>	<u>941</u>	<u>2,531</u>	<u>13,303</u>	<u>4,005</u>	<u>9,298</u>

Share-based payments expense (including capitalized and expensed portions) for the three months and year ended December 31, 2014 was \$1.0 million and \$3.5 million compared to \$2.7 million and \$13.3 million for the same period in 2013, respectively. The expense has decreased in 2014 compared to 2013 primarily due to the forfeiture of 70 million stock options in 2014 and the fair value of the options granted in 2014 decreased compared to prior periods. The fair value of share-based payments associated with the granting of stock options is recognized by the Company in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.

The Company capitalizes a portion of the sharebased payments expense using the same methodology associated with capitalized salaries and benefits. For each of the three months and year ended December 31, 2014, the Company capitalized \$0.3 million and \$0.9 million, compared to \$0.6 million and \$4.0 million of sharebased payments for the same periods in 2013, respectively.

## OTHER INCOME

For the three months ended  
December 31,

For the year ended  
December 31,

	2014		2013	
	2014	2013	2014	2013
Foreign exchange (loss)/gain	(5,063)	(101)	(9,162)	49
Interest income	442	761	789	2,170
Gain on sale of assets	—	—	13,265	—
Fair value adjustment on share purchase warrants	5,022	—	8,201	—
	<u>401</u>	<u>660</u>	<u>13,093</u>	<u>2,219</u>

Other income for the three months ended December 31, 2014 decreased by \$0.3 million to \$0.4 million from \$0.7 million in 2013. The change was due to an increase in foreign exchange loss of \$5.0 million and a decrease in interest income of \$0.4 million offset by an increase in the fair value gain on share purchase warrants of \$5.0 million.

Other income for the year ended December 31, 2014 increased by \$10.9 million to \$13.1 million from \$2.2 million for the same period in 2013. The change was due to a gain on sale of assets of \$13.3 million and an increase in the fair value gain on share purchase warrants of \$8.2 million offset by a foreign exchange loss of \$9.2 million and a decrease in interest income of \$1.4 million.

The increase in foreign exchange loss for the three months and year ended December 31, 2014, was primarily due to the depreciation of the Canadian dollar against the US dollar which increased the carrying value of the long-term debt denominated in US dollars. The increase in the fair value gain on share purchase warrants for the three months and year ended December 31, 2014, is due to the decline in the Company's stock price and a reduction in the time to expiry since the end of the third quarter 2014 and year ended December 31, 2013.

## DEPRECIATION

Depreciation expense was \$0.2 million for the three month period ended December 31, 2014 compared to \$0.2 million for the same period in 2013. For the year ended December 31, 2014, depreciation expense was \$0.7 million compared to \$0.5 million for the same period in 2013. Since the Company is a development stage company, its crude 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, 2014 and 2013. 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, 2014, the Company had total available tax deductions of approximately \$1.1 billion, with unrecognized tax losses that expire between 2028 and 2034.

## LIQUIDITY AND CAPITAL RESOURCES

December 31,	2014	2013
Working capital deficiency/(surplus)	\$ (138,249)	\$ 103,182
Senior secured notes	210,050	—
Shareholders' equity	972,016	880,973
	<u>\$ 1,043,817</u>	<u>\$ 984,155</u>

On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the "Notes") at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a final maturity date of August 1, 2017.

If by February 1, 2016, the Company has not: (1) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited in escrow, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield maintenance premium, then the final maturity date of the notes shall be August 1, 2016. The Company is required to pay to the holders of any Notes outstanding on August 1, 2016 a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. If the Notes are outstanding at August 1, 2017, there will be an exit premium paid of 7.298% on the aggregate principal amount of the Notes outstanding.

The Notes are senior secured obligations over the Company's assets. Transaction costs in relation to the issuance of the Notes were \$11.9 million. Transaction costs are capitalized against the long term debt and amortized using the effective interest rate method. The effective annualized interest rate for the three months and year ended December 31, 2014, was 16.9% which includes interest and amortization of the applicable financing costs and discount. The Notes are redeemable by the Company at any time prior to maturity. Prior to August 1, 2015, Notes are redeemable at par plus applicable premium payment calculated to August 1, 2015. Thereafter, the Notes are redeemable subject to the payment of principal amount plus the applicable call premiums to the holders of the Notes ranging from zero to 7%. Upon change of control of the Company, the Notes require the Company to make an offer of repayment in cash equal to 101% of the aggregate principal amount of the Notes outstanding plus the applicable accrued and unpaid interest. No value was ascribed to the repayment option as the fair value of this option was not significant at the date of issue and as at December 31, 2014.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires standard reporting in line with a reporting issuer on the TSX and includes timely reporting of material changes. The Company is in compliance with all covenants under the Notes as at December 31, 2014. The Notes also required the Company to remove builders' liens and Certificates of Lis Pendens ("CLPs") within 60 days of August 8, 2014. As of October 7, 2014, Sunshine succeeded in clearing all builders' liens and CLPs.

As at December 31, 2014, US\$30 million of proceeds from the Notes are held in a separate escrow account with a trustee. These funds are restricted to cover the interest payments for the first three interest payments. Interest payments are payable semi-annually on February 1 and August 1 of each year.

Working capital surplus as at December 31, 2014, of \$138.2 million is comprised of \$159.6 million of cash including restricted cash, offset by a non-cash working capital deficiency of \$21.4 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 West Ells, successful completion of a financing or monetizing assets. There is no certainty that these and other strategies will be successful. For further discussion, refer to "Commitments and contingencies".

For the three months and year ended December 31, 2014, the Company reported a net loss of \$12.3 million and \$26.8 million, respectively. At December 31, 2014, the Company had positive working capital of \$138.2 million and an accumulated deficit of \$227.7 million. Effective August 18, 2013, the Company suspended construction of its West Ells SAGD project, pending sourcing of additional financing. After securing proceeds from a US\$200 million senior secured notes offering, which closed on August 8, 2014, Sunshine re-commenced activities required to complete construction, commissioning and steaming of the first 5,000 barrels per day phase of the West Ells project.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 23% for the year ended December 31, 2014, compared to 14% for the year ended December 31, 2013.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt which are denominated in US dollars. 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, 2014. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2014 would have been impacted by approximately \$0.5 million. At December 31, 2014, the Company held approximately US\$47.3 million or \$54.9 million using the December 31, 2014 exchange rate of 1.1601, as cash in the Company's US bank accounts.

The Company's \$136.1 million in unrestricted cash as at December 31, 2014, is held in accounts with third party financial institutions consisting of cash in the Company's operating accounts. Cash is also held by the Company's legal counsel, within a trust account established by the Company. To date, the Company has experienced no loss or lack of access to its cash in operating accounts. However, the Company can provide no assurance that access to its invested cash will not be affected by adverse conditions in the financial markets or actions of creditors. 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. The Company had \$34.8 million in restricted cash as at December 31, 2014, held in a treasury bill, two treasury notes and \$0.3 million of the restricted cash is held by the legal counsel of the Company.

## CASH FLOWS SUMMARY

	For the three months ended		For the year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Cash used in operating activities	\$ (2,062)	\$ (126)	\$ (31,846)	\$ (15,372)
Cash used in investing activities	(26,934)	(41,938)	(180,489)	(281,083)
Cash generated/(used in) by financing activities	97	23,832	329,876	30,029
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	918	(101)	2,702	49
Increase/(decrease) in cash and cash equivalents	(27,981)	(18,333)	120,243	(266,377)
Cash, beginning of period	164,078	34,187	15,854	282,231
Cash, end of period	\$ 136,097	\$ 15,854	\$ 136,097	\$ 15,854

## OPERATING ACTIVITIES

Net cash used for operating activities for the three months and year ended December 31, 2014 was \$2.1 million and \$31.8 million compared to cash used of \$0.1 million and \$15.4 million in 2013, a change of \$2.0 million and \$16.4 million, respectively. Net cash used for operating activities includes movements in working capital of \$0.9 million and \$(11.4) million for the three months and year ended December 31, 2014 compared to \$4.9 million and \$4.7 million for the same periods in 2013, respectively.

## INVESTING ACTIVITIES

Net cash used for investing activities for the three month period ended December 31, 2014 decreased by \$15.0 million to \$26.9 million compared to \$41.9 million in the fourth quarter of 2013. For the year ended December 31, 2014 net cash used for investing activities decreased by \$100.6 million to \$180.5 million compared to \$281.1 million for the year ended 2013. The decrease was due to lower investment primarily due to the suspended construction of its West Ells SAGD project discussed below, partially offset by \$35.1 million deposited in restricted cash and partially offset by a decrease of \$1.4 million of interest income for the year ended December 31, 2014. The Notes required US\$30 million (\$35.1 million Canadian equivalent) to be held in a restricted escrow account to cover the first three interest payments on the Notes.

Capital investment for the 2013 development program focused on SAGD well pair 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 of 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 18, 2013 pending receipt of additional financing. Sunshine maintained staff at site to continue with reduced work activities and to ensure safety of the worksite and preservation of the West Ells asset. Salary costs related to staff at site are capitalized. Remaining costs directly related to the suspension, which totalled \$(0.4) million and \$4.8 million for the three months and year ended December 31, 2014 respectively, are recognized as suspension and preservation costs in the Consolidated Statements of Operations and Comprehensive Loss. After securing of debt funds in August 2014, Sunshine re-commenced activities required to progress Phase 1, the first 5,000 barrels per day production from the West Ells project.

## FINANCING ACTIVITIES

Financing activities for the three months and year ended December 31, 2014 generated \$0.1 million and \$329.9 million, which consisted of proceeds received from long-term debt of \$Nil and \$194.4 million, proceeds from the sale of assets of \$Nil and \$20.0 million, proceeds from issue of common shares of \$0.1 million and \$119.5 million, offset by \$Nil and \$4.1 million of share issue and finance related costs paid in the respective periods. Financing activities for the three months and year ended December 31, 2013 generated \$23.8 million and \$30.0, 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.

## 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, 2014, the Company's estimated commitments are as follows:

	Total	2015	2016	2017	2018	2019	Thereafter
Repayment of long-term debt <sup>1</sup>	\$232,020	—	232,020	—	—	—	—
Interest payments on long-term debt <sup>2</sup>	46,404	23,202	23,202	—	—	—	—
Drilling, other equipment and contracts	12,011	8,600	3,354	28	29	—	—
Lease rentals <sup>3</sup>	10,022	1,200	1,187	1,169	1,169	1,169	4,128
Office leases	11,342	2,822	2,822	2,688	2,408	602	—
	<u>\$ 311,799</u>	<u>35,824</u>	<u>262,585</u>	<u>3,885</u>	<u>3,606</u>	<u>1,771</u>	<u>4,128</u>

1. Principal amount of Notes based on the period end exchange rate of \$1 US = 1.1601 CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not yet been satisfied.
2. Based on 10% per annum and a maturity date of August 1, 2016, at the period exchange rate of \$1 US = 1.1601 CDN.
3. 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 in August 2013, many suppliers, following normal practice in Canada, placed builders' liens on the West Ells property to secure past due and unpaid invoices. Through the normal course of business, the Company recorded the unpaid invoices in trade and accrued liabilities. On December 5, 2013, the Company reached forbearance agreements with all then current lien holders and litigants until February 28, 2014. On February 15, 2014, the Company reached a further forbearance agreement with all then current lien holders and litigants to extend the forbearance period to May 31, 2014. On June 27, 2014, the Company reached a further forbearance agreement with all then current lien holders and litigants to extend the forbearance period to July 31, 2014. The Company paid 25% of all past due and unpaid invoices in December, 2013, 20% payment of all past due and unpaid invoices in early March, 2014, 40% payment of all past due and unpaid invoices in late June to early July, 2014, in exchange for these three forbearance agreements. During 2014 the Company has raised equity funds disclosed in Note 13 and completed additional financing, through the \$20 million sale of assets and the issuance of US\$200 million Senior Secured notes, to enable it to meet these obligations and clear up these issues and continue developing its business. The Company obtained discharge of the remaining outstanding liens by October 7, 2014, thus satisfying the condition in the Notes. The aggregate value of the claims outstanding against Sunshine related to claiming payment for unpaid invoices was approximately \$1.0 million as at December 31, 2014. Sunshine continues to work toward resolution of these claims.

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 \$40 million plus interest at 15% per annum since the date of the Share Subscription Agreement. The Company's Statement of Defence was filed on April 2, 2014. Management considers the Action to be unfounded. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2014 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 is a related party, have been eliminated on consolidation. The Company had related party transactions with the following companies related by way of directors or shareholders in common:

- MJH Services Ltd. ("MJH Services") is a private company wholly owned by Sunshine's Executive Vice-Chairman of the Board of Directors, Mr. Michael Hibberd. MJH Services provided overall operational services to the Company for the periods up to June 25, 2014. The contract expired on June 25, 2014, and was not renewed.
- 1226591 Alberta Inc. ("1226591 Inc.") is a private company wholly owned by one of Sunshine's former Co-Chairmen of the Board of Directors. 1226591 Inc. provides overall operational services to the Company.
- McCarthy Tétrault LLP ("McCarthy") is a law firm in which Mr. Turnbull a director of the Company is a partner. McCarthy's provides legal services to the Company. Mr. Turnbull was a director of the Company until the time of his resignation on November 28, 2014. The transactions disclosed below include all transactions between the Company and McCarthy for the year ended December 31, 2014.

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

The Company incurred consulting compensation expenses to MJH Services and employment expenses to Mr. Michael Hibberd totalling \$1.3 million for the year ended December 31, 2014 compared to \$2.5 million for the same period in 2013. Mr. Michael Hibberd purchased US\$2 million principal amount of Notes in August 2014 at the offering price. The Company incurred consulting compensation expenses to 1226591 Inc. totalling \$1.0 million for the year ended December 31, 2014 compared to \$2.5 million for the same period in 2013. The 1226591 Alberta Inc. consulting contract expired on June 25, 2014 and was not renewed.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company classified legal costs with McCarthy as follows:

	For the three months ended		For the year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Legal expense	(74)	286	1,185	926
Finance fees	—	—	187	235
Capitalized legal fees	—	—	—	—
Financing transaction costs on notes	—	(107)	82	272
	<u>(74)</u>	<u>179</u>	<u>1,454</u>	<u>1,433</u>

The following balances were outstanding and included in prepaids in 2014 resulting in a credit (2013 – trade and accrued liabilities):

	December 31, 2014	December 31, 2013
Legal	<u>(254)</u>	<u>887</u>

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

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain lease agreements which are reflected in the table above under the heading "Commitments and contingencies". No asset or liability value was assigned to these agreements on the Company's balance sheet. At December 31, 2014, the Company did not have any other off-balance sheet arrangements.

## NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

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 or after 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 3.16, "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, 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 cash generating units ("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 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, future forfeiture rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

## Fair Value Measurement

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

## Deferred income taxes

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

## RISK FACTORS

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2013, which is available at [www.sedar.com](http://www.sedar.com). The 2013 annual report of the Company is available at the Company's website, [www.sunshineoilsands.com](http://www.sunshineoilsands.com), and the website of The Stock Exchange of Hong Kong Limited ("HKEX"), [www.hkexnews.hk](http://www.hkexnews.hk). The Company's 2014 Annual Information Form is available at [www.sedar.com](http://www.sedar.com).

## DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

Michael Hibberd, Executive Vice-Chairman of the Board and Qiping Men, Interim Chief Financial Officer, 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 Vice-Chairman and Interim CFO 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. As at December 31, 2014, the Executive Vice-Chairman and Interim Chief Financial Officer evaluated the design and operation of the Company's DC&P. Based on that evaluation, the Executive Vice-Chairman and Interim Chief Financial Officer concluded that the Company's DC&P were effective as at December 31, 2014.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Michael Hibberd, Executive Vice-Chairman of the Board and Qiping Men, Interim Chief Financial Officer, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Further, using the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR at December 31, 2014, and concluded that the Company's ICFR are effective at December 31, 2014 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the three months and year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

## ADDITIONAL STOCK EXCHANGE INFORMATION

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

## CORPORATE GOVERNANCE CODE (THE "CODE")

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

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the HKEX (the "Hong Kong Listing Rules"), has been complied with following its public listing, save that the Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.

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

The Company confirms that it has adopted the Model Code, as set out in Appendix 10 to the Hong Kong Listing Rules, following its public listing. Having made specific enquiry with all directors, the directors have confirmed and complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

## PURCHASE, SALE OR REDEMPTION OF SUNSHINE'S LISTED SECURITIES

### Class "A" Common Shares

During year ended December 31, 2014, the Company issued 640,000,000 Class "A" common shares in private placements at a price of HK \$0.85 per share (approximately \$0.12 per share) for gross proceeds of HK\$544.0 million or approximately \$75.4 million.

During the year ended December 31, 2014, the Company also completed closings of equity private placements, totalling 181,242,193 Units at a price of HK\$1.70 per Unit (approximately \$0.24 per Unit) for gross proceeds of HK\$308.1 million or approximately \$43.8 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 \$0.27 per common share) for a period of 24 months following the closing date. These warrants were valued at an average of \$0.04 per warrant for a total of C\$2.2 million. As part of a finders' fee, the Company issued two-fifths of a warrant for each purchased Unit. These finders' fee warrants were valued at \$0.04 per warrant for a total of \$2.6 million. Total value of warrants granted during the year ended December 31, 2014, was \$4.8 million. The ascribed values of the warrants at issuance were determined using the Black-Scholes fair value pricing model based on a risk free rate of 0.98-1.05%, expected volatility of 43.01% and an expected life of two years. The total cost to complete the private placements was \$0.9 million which includes a 3% finders' fee of HK\$4.6 million (approximately \$0.7 million) to the finder of 90,588,235 Units.

During the three months and year ended December 31, 2014, the Company issued 2,078,908 and 5,772,789 shares respectively, from the Company's employee share savings plan for gross proceeds of \$0.2 million and \$0.8 million, respectively.

At the Annual and Special Meeting of Shareholders of the Company held on June 25, 2014, shareholders approved the option of payment of 50% of the directors' base retainer fees to the directors in shares in lieu of cash in respect of the period from October 1, 2013 to June 25, 2014 and future base retainer fees. Shareholders also approved the option of payment of 50% of the base fees payable to the co-chairmen in shares in lieu of cash in respect of the period from April 1, 2014 to June 25, 2014 and in relation to future base co-chairman fees.

Upon approval, at the discretion of the Board, the option of payment of shares in lieu of cash will result in an expense to share based payments and reversal of directors and/or employment or consulting fees as applicable. For the three months and year ended December 31, 2014, the Company issued 0.3 million and 1.9 million shares respectively, in lieu of cash resulting in a \$0.1 million and \$0.3 million expense to share based payment and a \$0.1 million and \$0.3 million reversal of directors and consulting/employment fees payable, 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, 2014.

## 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, 2014, there were no Pre-IPO stock options exercised. There were also 5.6 million and 43.3 million forfeitures of Pre-IPO stock options during the three months and year ended December 31, 2014.

## Post-IPO Stock Option Plan

For the three months and year ended December 31, 2014, the Company granted 16.7 million and 70.6 million Post-IPO stock options. During the three months and year ended December 31, 2014, there were no Post-IPO stock options exercised. There were also 3.5 million and 26.7 million forfeitures of Post-IPO stock options during the three months and year ended December 31, 2014.

## SHARES OUTSTANDING

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

Class "A" common shares	<u>3,897,952,178</u>
-------------------------	----------------------

## 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, 2014 together with comparative figures for the corresponding periods in 2013 as follows:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2014	December 31, 2013
<b>Assets</b>		
<b><i>Current assets</i></b>		
Cash	\$ 136,097	\$ 15,854
Restricted cash and cash equivalents	23,467	
Trade and other receivables	1,913	1,294
Prepays and deposits	5,843	656
	<u>167,320</u>	<u>17,804</u>
<b><i>Non-current assets</i></b>		
Restricted cash and cash equivalents	11,601	
Exploration and evaluation assets	379,403	376,912
Property, plant and equipment	701,736	634,672
	<u>1,092,740</u>	<u>1,011,584</u>
	<u>\$ 1,260,060</u>	<u>\$ 1,029,388</u>
<b>Liabilities and Shareholders' Equity</b>		
<b><i>Current liabilities</i></b>		
Trade and accrued liabilities	\$ 28,128	\$ 120,114
Provisions for decommissioning obligations	834	872
Share purchase warrants	109	—
	<u>29,071</u>	<u>120,986</u>
<b><i>Non-current liabilities</i></b>		
Long-term debt	210,050	
Provisions for decommissioning obligations	48,650	23,597
Share purchase warrants	273	3,832
	<u>288,044</u>	<u>148,415</u>
<b>Net current (liabilities)/assets</b>	<u>142,549</u>	<u>(103,182)</u>
<b>Total assets less current liabilities</b>	<u>1,230,989</u>	<u>908,402</u>
<b>Shareholders' Equity</b>		
Share capital	1,139,022	1,024,423
Reserve for share-based compensation	60,658	57,447
Deficit	(227,664)	(200,897)
	<u>972,016</u>	<u>880,973</u>
	<u>\$ 1,260,060</u>	<u>\$ 1,029,388</u>

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended		For the year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
<b>Other income</b>				
Foreign exchange gains	\$ (5,063)	\$ (101)	\$ (9,162)	\$ 49
Interest income	442	761	789	2,170
Gain from sale of asset	—	—	13,265	—
Fair value adjustment on share purchase warrants	5,022	—	8,201	—
	<u>401</u>	<u>660</u>	<u>13,093</u>	<u>2,219</u>
<b>Expenses</b>				
Salaries, consulting and benefits	2,051	(167)	7,352	9,920
Rent	322	346	1,255	1,068
Legal and audit	405	1,385	2,648	2,304
Depreciation	158	153	698	483
Share-based payments	710	2,075	2,531	9,298
Suspension costs	(403)	2,652	4,789	2,652
Finance costs	8,735	743	15,916	4,775
Other general and administrative	703	988	4,671	4,499
	<u>12,681</u>	<u>8,175</u>	<u>39,860</u>	<u>34,999</u>
Loss before income taxes	<u>12,280</u>	<u>7,515</u>	<u>26,767</u>	<u>32,780</u>
Income taxes	—	—	—	—
Net loss and comprehensive loss for the period attributable to equity holders of the Company	<u>12,280</u>	<u>7,515</u>	<u>26,767</u>	<u>32,780</u>
Basic and diluted loss per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

### 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 applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Hong Kong Listing Rules.

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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:

	December 31, 2014	December 31, 2013
Trade	\$ 1,035	\$ 558
Accruals and other	22	137
Goods and Services Taxes receivable	856	599
	<u>\$ 1,913</u>	<u>\$ 1,294</u>

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:

	December 31, 2014	December 31, 2013
0 - 30 days	\$ 74	\$ 408
31 - 60 days	12	21
61 - 90 days	11	11
>90 days	938	118
	<u>\$ 1,035</u>	<u>\$ 558</u>

As at December 31, 2014, included in the Company's trade receivables was an aggregate carrying amount of \$1.0 million (December 31, 2013 - \$0.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances. Management believes the past due amounts will be collected.

## 4. Trade Payables

Trade payables and accrued liabilities mainly represent payables to subcontractors for development, engineering, procurement and construction services. While the Company has financial risk management policies in place to ensure that payables are generally paid within pre-agreed credit terms. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting periods:

	2014	2013
Trade		
0 - 30 days	\$ 3,007	1,326
31 - 60 days	180	—
61 - 90 days	172	12,263
> 91 days	662	89,417
	<hr/>	<hr/>
	4,021	103,006
Accrued liabilities	24,107	17,108
	<hr/>	<hr/>
	<b>\$ 28,128</b>	<b>120,114</b>
	<hr/> <hr/>	<hr/> <hr/>

## 5. Dividends

The Company has not declared or paid any dividends in respect of the three months and year ended December 31, 2014 (2013 - \$Nil). The Notes restrict the Company from paying dividends.

## 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% (2013 - 25.0%) to earnings before income taxes for the following reasons:

For the years ended December 31,	2014	2013
Net loss before taxes	\$ (26,767)	\$ (32,780)
Tax rate (%)	25.0%	25.0%
	<hr/>	<hr/>
Expected income tax recovery	(6,692)	(8,195)
Effect of expenses that are not deductible in determining taxable profit:		
Share based payment expense	633	2,324
Capital portion of foreign exchange gain	2,254	(6)
Unrecognized tax assets	—	—
Changes to opening tax pools	10,111	(15,376)
Change in deferred tax benefits not recognized	(6,306)	21,253
	<hr/>	<hr/>
Income tax recovery	\$ —	\$ —
	<hr/> <hr/>	<hr/> <hr/>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The components of the net deferred income tax asset as at December 31, 2014 are as follows:

For the years ended December 31,	2014	2013
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	(137,644)	(92,947)
Decommissioning liabilities	12,371	6,117
Share issue costs	10,159	14,146
Non-capital losses	130,061	93,937
Deferred tax benefits not recognized	(14,947)	(21,253)
	<u>\$ —</u>	<u>\$ —</u>

The Company's non-capital losses of \$520,247 (2013 - \$375,750), expire between 2028 and 2034.

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, 2014. 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 year ended December 31, 2014.

## REVIEW OF ANNUAL RESULTS

The consolidated financial statements for the Company for the year ended December 31, 2014 were reviewed by the Audit Committee of the Company, the Company's external auditor and approved by the Board.

## PUBLICATION OF INFORMATION

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



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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, 2014 and December 31, 2013, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**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, 2014, Sunshine Oilsands Ltd. incurred a net loss of \$26.8 million and has an accumulated deficit of \$227.7 million at December 31, 2014. 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, 2015  
Calgary, Alberta

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

		As at December 31,	
	Notes	2014	2013
<b>Assets</b>			
<i>Current assets</i>			
Cash	4	\$ 136,097	\$ 15,854
Restricted cash and cash equivalents	4	23,467	—
Trade and other receivables	5	1,913	1,294
Prepays and deposits	6	5,843	656
		<u>167,320</u>	<u>17,804</u>
<i>Non-current assets</i>			
Restricted cash and cash equivalents	4	11,601	—
Exploration and evaluation assets	7	379,403	376,912
Property, plant and equipment	8	701,736	634,672
		<u>1,092,740</u>	<u>1,011,584</u>
		<u><u>\$ 1,260,060</u></u>	<u><u>\$ 1,029,388</u></u>
<b>Liabilities and Shareholders' Equity</b>			
<i>Current liabilities</i>			
Trade and accrued liabilities	9	\$ 28,128	\$ 120,114
Provisions for decommissioning obligations	11	834	872
Share purchase warrants	13.2	109	—
		<u>29,071</u>	<u>120,986</u>
<i>Non-current liabilities</i>			
Long-term debt	10	210,050	—
Provisions for decommissioning obligations	11	48,650	23,597
Share purchase warrants	13.2	273	3,832
		<u>288,044</u>	<u>148,415</u>
<b>Shareholders' Equity</b>			
Share capital	13	1,139,022	1,024,423
Reserve for share-based compensation		60,658	57,447
Deficit		(227,664)	(200,897)
		<u>972,016</u>	<u>880,973</u>
		<u><u>\$ 1,260,060</u></u>	<u><u>\$ 1,029,388</u></u>

Going concern (note 2)

Commitments and contingencies (note 21)

Approved by the Board

**“Robert J. Herdman”**  
Director

**“Michael J. Hibberd”**  
Director

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

		For the years ended December 31,	
	Notes	2014	2013
<i>Other income</i>			
Foreign exchange (losses)/gains	18.6	\$ (9,162)	\$ 49
Interest income		789	2,170
Gain on sale of assets	7	13,265	—
Fair value adjustment on share purchase warrants	13.2	8,201	—
		<u>13,093</u>	<u>2,219</u>
<i>Expenses</i>			
Salaries, consulting and benefits		7,352	9,920
Rent		1,255	1,068
Legal and audit		2,648	2,304
Depreciation	8	698	483
Share-based payments	14.6	2,531	9,298
Suspension and preservation costs	8	4,789	2,652
Finance costs	16	15,916	4,775
Other general and administrative		4,671	4,499
		<u>39,860</u>	<u>34,999</u>
Loss before income taxes		26,767	32,780
Income taxes	12	—	—
Net loss and comprehensive loss for the year attributable to equity holders of the Company		<u>\$ 26,767</u>	<u>\$ 32,780</u>
Basic and diluted loss per share	17	<u>0.01</u>	<u>0.01</u>

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, 2013		\$ 57,447	\$ 1,024,423	\$ (200,897)	\$ 880,973
Net loss and comprehensive loss for the year		—	—	(26,767)	(26,767)
Issue of common shares	13.1	—	114,372	—	114,372
Issue of shares under employee share savings plan	13.1	—	835	—	835
Issue of shares under Director share arrangement	13.1	—	261	—	261
Recognition of share-based payments	13.1	3,211	—	—	3,211
Share issue costs, net of deferred tax (\$Nil)	13.1	—	(869)	—	(869)
<b>Balance, December 31, 2014</b>		<b>60,658</b>	<b>1,139,022</b>	<b>(227,664)</b>	<b>972,016</b>
Balance, December 31, 2012		\$ 47,395	\$ 991,798	\$ (168,117)	\$ 871,076
Net loss and comprehensive loss for the year		—	—	(32,780)	(32,780)
Recognition of share-based payments	13.1	13,303	—	—	13,303
Issue of common shares	13.1	—	21,086	—	21,086
Issue of shares under employee share savings plan	13.1	—	721	—	721
Issue of shares upon exercise of share options	13.1	—	8,390	—	8,390
Reserve transferred on exercise of share options	13.1	(3,251)	3,251	—	—
Share issue costs, net of deferred tax (\$Nil)	13.1	—	(823)	—	(823)
<b>Balance, December 31, 2013</b>		<b>\$ 57,447</b>	<b>\$ 1,024,423</b>	<b>\$ (200,897)</b>	<b>\$ 880,973</b>

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

		For the years ended December 31,	
	Notes	2014	2013
<i>Cash flows from operating activities</i>			
Net loss		\$ (26,767)	\$ (32,780)
Finance costs		15,916	4,775
Unrealized foreign exchange losses/(gains)		8,972	(49)
Interest income		(789)	(2,170)
Gain on sale of asset	7	(13,265)	—
Fair value adjustment on share purchase warrants		(8,201)	—
Depreciation		698	483
Share-based payment expense		2,531	9,298
Employee share savings plan		419	365
		<u>(20,486)</u>	<u>(20,078)</u>
Movement in non-cash working capital	22	(11,360)	4,706
<b>Net cash used in operating activities</b>		<u>(31,846)</u>	<u>(15,372)</u>
<i>Cash flows from investing activities</i>			
Interest received		789	2,170
Payments for exploration and evaluation assets	22	(5,232)	(12,745)
Payments for property, plant and equipment	22	(140,978)	(270,508)
Restricted cash	4	(35,068)	—
<b>Net cash used in investing activities</b>		<u>(180,489)</u>	<u>(281,083)</u>
<i>Cash flows from financing activities</i>			
Proceeds from issue of common shares	13.1	119,541	32,846
Proceeds from sale of asset	7	20,000	—
Proceeds from long term debt	10	194,413	—
Payment for share issue costs	22	(869)	—
Payment for finance costs	22	(3,209)	(2,817)
<b>Net cash provided in financing activities</b>		<u>329,876</u>	<u>30,029</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		2,702	49
Net (decrease)/increase in cash and cash equivalents		120,243	(266,377)
Cash beginning of year		15,854	282,231
<b>Cash end of year</b>		<u>\$ 136,097</u>	<u>\$ 15,854</u>

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 1. COMPANY INFORMATION

Sunshine Oilsands Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of its principal place of business is 1020, 903 - 8 Avenue S.W., Calgary, Alberta, T2P 0P7, Canada. The Company's shares were listed on the Stock Exchange of Hong Kong Limited ("SEHK") on March 1, 2012 pursuant to an initial public offering ("IPO") and trades under the stock code symbol of "2012". On 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.

## 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, 2014, the Company reported a net loss of \$26.8 million. At December 31, 2014, the Company had positive working capital of \$138.2 million and an accumulated deficit of \$227.7 million. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to access additional financing. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

On August 6, 2013, the Company announced the Board of Directors had directed management 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. Effective August 18, 2013, the Company suspended construction of its West Ells steam assisted gravity drainage ("SAGD") project, pending sourcing of additional financing. This process was terminated in August 2014. The following transactions were closed by the Company in 2014 including:

- During the year end 2014, the Company issued 640,000,000 Class "A" common shares in private placements for gross proceeds of \$75.4 million. The Company also completed closings of equity private placements, totalling 181,242,193 units for gross proceeds of \$43.8 million. Each unit is comprised of one Class "A" common share and one-third of one purchase warrant. (Note 13.1)
- On July 17, 2014, the Company entered into a petroleum, natural gas and general conveyance agreement for the sale of certain non-core oilsands assets which relate to, among other things, lands and petroleum and natural gas rights to a third party for total consideration of \$20.0 million. The sale was conducted between the parties on an arm's length basis. The sale was completed on July 21, 2014 (Note 7).
- On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the "Notes") issued at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a final maturity date of August 1, 2017 (Note 10).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 2. BASIS OF PREPARATION (Continued)

### *Going Concern* (Continued)

Following the closing of transactions during 2014, the suspension was lifted and construction of the West Ells SAGD project recommenced.

### 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 ("\$"), which is the functional currency of the Company.

### 2.2 Critical accounting judgments and key sources of estimation uncertainty

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

#### ***2.2.1 Critical judgments and estimates in applying accounting policies***

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

##### *Joint Control*

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

##### *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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 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)

##### *Oil and gas reserves (Continued)*

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production, prices and other economic conditions;
- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and
- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Company's development and production assets are determined using proved plus probable reserves.

##### *Impairment of non-financial assets*

The recoverable amounts of cash generating units ("CGU") and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 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)

##### *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, future forfeiture rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

##### *Fair Value Measurement*

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

##### *Deferred income taxes*

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

## 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Oil and Natural Gas Exploration and Development Expenditures

#### *Exploration and evaluation assets*

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

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

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

#### *Impairment*

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.3 Property, plant and equipment

#### *Carrying value*

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

#### *Suspension costs*

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

#### *Depletion and depreciation*

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

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

#### *Impairment*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.3 Property, plant and equipment (Continued)

#### *Impairment (Continued)*

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

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

#### *Maintenance and repairs*

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

### 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. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.4 Provisions (Continued)

#### 3.4.1 Decommissioning costs

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

### 3.5 Share-based payments

#### 3.5.1 Equity-settled share-based payment transactions

##### *Share options and preferred shares issued to employees*

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Share-based payments (Continued)

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

##### *Share options and preferred shares issued to non-employees*

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

#### 3.5.2 Cash-settled share-based payment transactions

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

### 3.6 Financial assets

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

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

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

A financial asset is classified as held for trading if:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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

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

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

#### 3.6.2 Loans and receivables

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

#### 3.6.3 Impairment of financial assets

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.6 Financial assets (Continued)

#### 3.6.3 Impairment of financial assets (Continued)

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

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

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

#### 3.6.4 Derecognition of financial assets

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

### 3.7 Financial liabilities and equity instruments issued by the Company

#### 3.7.1 Classification as debt or equity

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

#### 3.7.2 Equity instruments

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### 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 accrued liabilities and borrowings as other financial liabilities.

#### 3.7.4 Derecognition of financial liabilities

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

### 3.8 Derivatives and embedded derivatives

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

### 3.9 Taxation

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

#### 3.9.1 Current tax

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.9 Taxation (Continued)

#### 3.9.2 Deferred tax

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

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

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

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

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

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

### 3.10 Cash and cash equivalents

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.11 Foreign currency translation

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

### 3.12 Related party transactions

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

### 3.13 Borrowing costs

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

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

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

Due to the short term period between the date the West Ells SAGD project recommenced and the expected date the West Ells asset is to be ready for use, the Company did not capitalize borrowing costs incurred from the Notes.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.15 Changes in accounting policies

As of January 1, 2014, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of the new standards adopted and the impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" amendments which reduce the circumstances in which the recoverable amount of cash generating units ("CGUs") is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments resulted in immaterial disclosure in the Company's financial statements.
- IFRIC 21 "Levies," 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. The prospective adoption of this standard did not have a material impact on the Company's condensed interim financial statements.

### 3.16 Future accounting changes

In May 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively in full or by applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 4. CASH AND CASH EQUIVALENTS

	2014	2013
<i>Current asset</i>		
Cash <sup>1</sup>	\$ 136,097	\$ 15,854
Current restricted cash and cash equivalents <sup>2</sup>	23,467	—
	<u>\$ 159,564</u>	<u>\$ 15,854</u>
<i>Non-current asset</i>		
Non-current restricted cash and cash equivalents <sup>2</sup>	\$ 11,601	\$ —
	<u>\$ 171,165</u>	<u>\$ 15,854</u>

- The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates of between 0.5% and 1.3%.
- The US\$200 million senior secured notes issued in August 2014 required US\$30 million of proceeds to be held in a restricted escrow account to cover the first three interest payments on the notes. The three interest payments are due on February 1, 2015, August 1, 2015 and February 1, 2016. The third interest payment has been classed as non-current restricted cash. The Company's restricted cash for interest payments consists of cash held in a treasury bill and two treasury notes. In addition, \$0.3 million of restricted cash is held by the legal counsel of the Company.

## 5. TRADE AND OTHER RECEIVABLES

	2014	2013
Trade	\$ 1,035	\$ 558
Accruals and other receivables	22	137
Goods and Services Taxes receivable	856	599
	<u>\$ 1,913</u>	<u>\$ 1,294</u>

As at December 31, 2014, included in the Company's trade receivables was an aggregate carrying amount of \$1.0 million (December 31, 2013 - \$0.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances. Management believes the past due amounts will be collected.

## 6. PREPAID EXPENSES AND DEPOSITS

	2014	2013
Prepays	\$ 132	\$ 193
Deposits <sup>1</sup>	5,711	463
	<u>\$ 5,843</u>	<u>\$ 656</u>

- Included in deposits at December 30, 2014 is \$4.5 million held with the Alberta Energy Regulator for the License Liability Rating Program.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 7. EXPLORATION AND EVALUATION ASSETS

<b>Balance, December 31, 2012</b>	\$ 366,668
Capital expenditures	17,313
Non-cash expenditures <sup>1</sup>	(4,568)
Transferred to PP&E	(2,501)
	<hr/>
<b>Balance, December 31, 2013</b>	\$ 376,912
Capital expenditures	5,232
Non-cash expenditures <sup>1</sup>	4,025
Disposal of asset	(6,766)
	<hr/>
<b>Balance, December 31, 2014</b>	<u><u>\$ 379,403</u></u>

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, 2014, the Company capitalized directly attributable costs/(recovery) including \$(0.1) million for share-based payment expense (2013 - \$0.03 million), \$Nil million of pre-production operating loss/(income) (2013 - \$(0.6) million) and \$2.4 million of general and administrative costs (2013 - \$0.6 million), respectively.

On July 17, 2014, the Company entered into a petroleum, natural gas and general conveyance agreement for the 100% sale of the Pelican Lake asset, which relates to, among other things, lands, oil sands and petroleum and natural gas rights, to a third party for total consideration of \$20.0 million. Total carrying value of the asset of \$6.8 million has been removed from the Company's exploration and evaluation account resulting in a \$13.3 million gain on the sale of the asset for the year ended December 31, 2014. The asset had a nominal provision for decommissioning obligation which has been removed from the Company's future Asset Retirement Obligation cost account.

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, were 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, 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 7. EXPLORATION AND EVALUATION ASSETS (Continued)

Exploration and evaluation costs are comprised of the following:

	2014	2013
Intangibles	\$ 272,469	\$ 269,992
Tangibles	18,682	19,553
Land and lease costs	88,252	87,367
	<u>\$ 379,403</u>	<u>\$ 376,912</u>

## 8. PROPERTY, PLANT AND EQUIPMENT

	Crude oil assets	Corporate assets	Total
<i>Cost</i>			
<b>Balance, December 31, 2012</b>	\$ 326,802	\$ 1,948	\$ 328,750
Capital expenditures	314,945	1,737	316,682
Non-cash expenditures <sup>1</sup>	(9,498)	—	(9,498)
<b>Balance, December 31, 2013</b>	\$ 632,249	\$ 3,685	\$ 635,934
Capital expenditures	46,491	63	46,554
Non-cash expenditures <sup>1</sup>	21,208	—	21,208
<b>Balance, December 31, 2014</b>	<u>\$ 699,948</u>	<u>\$ 3,748</u>	<u>\$ 703,696</u>

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

	Crude oil assets	Corporate assets	Total
<b>Accumulated depreciation</b>			
<b>Balance, December 31, 2012</b>	\$ —	\$ 779	\$ 779
Depreciation expense	—	483	483
<b>Balance, December 31, 2013</b>	\$ —	\$ 1,262	\$ 1,262
Depreciation expense	—	698	698
<b>Balance, December 31, 2014</b>	<u>\$ —</u>	<u>\$ 1,960</u>	<u>1,960</u>
<b>Carrying value, December 31, 2014</b>	<u>\$ 699,948</u>	<u>1,788</u>	<u>701,736</u>
<b>Carrying value, December 31, 2013</b>	<u>\$ 632,249</u>	<u>\$ 2,423</u>	<u>\$ 634,672</u>

At December 31, 2014, 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, 2014, the Company capitalized directly attributable costs including \$4.8 million for general and administrative costs (2013 - \$10.1 million), and \$1.1 million for share-based payment expense (2013 - \$4.0 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 8. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company's focus is on evaluating and developing its oilsands assets with the first significant 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 receipt of additional financing which occurred in 2014. Sunshine maintained staff at site to continue with reduced work activities and to ensure safety of the worksite and preservation of the West Ells asset during suspension. Salary costs related to staff at site were capitalized. Remaining costs directly related to the suspension, which totalled \$4.8 million year ended December 31, 2014, (2013 - \$2.7 million), are recognized as suspension and preservation costs in the Consolidated Statements of Operations and Comprehensive Loss. After completion of a debt financing transaction in August 2014, the suspension was lifted and construction of the West Ells SAGD project recommenced.

## 9. TRADE AND ACCRUED LIABILITIES

	2014	2013
Trade	\$ 4,021	\$ 103,006
Accrued liabilities	24,107	17,108
	<u>\$ 28,128</u>	<u>\$ 120,114</u>

## 10. LONG-TERM DEBT

	2014	2013
Senior secured notes (US\$200,000,000)	\$ 232,020	\$ —
Issue discount on notes	(14,383)	—
Financing transaction costs on notes	(11,846)	—
Amortization of financing transaction costs	4,259	—
Balance, end of period	<u>\$ 210,050</u>	<u>\$ —</u>

On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the "Notes") at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a final maturity date of August 1, 2017.

If by February 1, 2016, the Company has not: (1) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited in escrow, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield maintenance premium, then the final maturity date of the notes shall be August 1, 2016. The Company is required to pay to the holders of any Notes outstanding on August 1, 2016 a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. If the Notes are outstanding at August 1, 2017, there will be an exit premium paid of 7.298% on the aggregate principal amount of the Notes outstanding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 10. LONG-TERM DEBT (Continued)

The Notes are senior secured obligations over the Company's assets. Transaction costs in relation to the issuance of the Notes were \$11.9 million. Transaction costs are capitalized against the long term debt and amortized using the effective interest rate method. The effective annualized interest rate for the year ended December 31, 2014, was 16.9% which includes interest and amortization of the applicable financing costs and discount. The Notes are redeemable by the Company at any time prior to maturity. Prior to August 1, 2015, Notes are redeemable at par plus applicable premium payment calculated to August 1, 2015. Thereafter, the Notes are redeemable subject to the payment of principal amount plus the applicable call premiums to the holders of the Notes ranging from zero to 7%. Upon change of control of the Company, the Notes require the Company to make an offer of repayment in cash equal to 101% of the aggregate principal amount of the Notes outstanding plus the applicable accrued and unpaid interest. No value was ascribed to the repayment option as the fair value of this option was not significant at the date of issue and as at December 31, 2014.

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires standard reporting in line with a reporting issuer on the TSX and includes timely reporting of material changes. The Company is in compliance with all covenants under the Notes as December 31, 2014. The Notes also required the Company to remove builders' liens and Certificates of Lis Pendens ("CLPs") within 60 days of August 8, 2014. As of October 7, 2014, Sunshine succeeded in clearing all builders' liens and CLPs.

As at December 31, 2014, US\$30 million of proceeds from the Notes are held in a separate escrow account with a trustee. These funds are restricted to cover the interest payments for the first three interest payments. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1 US = 1.1601 CDN

## 11. PROVISIONS FOR DECOMMISSIONING OBLIGATIONS

As at December 31, 2014, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$83.3 million (2013 - \$45.1 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate between 1.00% to 2.22% per annum and inflated using an inflation rate of 2.0% per annum.

	2014	2013
Balance, beginning of year	\$ 24,469	\$ 39,829
Additional provision recognized	3	2,905
Disposal of asset (Note 7)	(42)	—
Effect of changes in estimates	24,293	(18,902)
Unwinding of discount rate and effect	761	637
	<u>\$ 49,484</u>	<u>\$ 24,469</u>
Current portion	(834)	(872)
Balance, end of year	<u>\$ 48,650</u>	<u>\$ 23,597</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 12. INCOME TAXES

### 12.1 Income taxes recognized in the Statement of Operations

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rate of 25.0% (2013 - 25.0%) to earnings before income taxes for the following reasons:

For the years ended December 31,	2014	2013
Net loss before taxes	\$ (26,767)	\$ (32,780)
Tax rate (%)	25.0%	25.0%
Expected income tax recovery	(6,692)	(8,195)
Effect of expenses that are not deductible in determining taxable profit:		
Share based payment expense	633	2,324
Capital portion of foreign exchange	2,254	(6)
Unrecognized tax assets		
Changes to opening tax pools	10,111	(15,376)
Change in deferred tax benefits not recognized	(6,306)	21,253
Income tax recovery	\$ —	\$ —

### 12.2 Deferred tax balances

The components of the net deferred income tax asset as at December 31, 2014 are as follows:

	2014	2013
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	(137,644)	(92,947)
Decommissioning liabilities	12,371	6,117
Share issue costs	10,159	14,146
Non-capital losses	130,061	93,937
Deferred tax benefits not recognized	(14,947)	(21,253)
	\$ —	\$ —

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 12. INCOME TAXES (Continued)

### 12.3 Tax pools

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

	2014	2013
Canadian development expense	39,455	47,674
Canadian exploration expense	214,890	276,605
Undepreciated capital cost	276,217	335,396
Non-capital losses	520,247	375,750
Other	40,638	56,583
	<u>\$ 1,091,447</u>	<u>\$ 1,092,008</u>

The Company's non-capital losses of \$520,247 (2013 - \$375,750), expire between 2028 and 2034.

## 13. SHARE CAPITAL

The Company's authorized share capital is as follows:

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

### Issued Capital

	2014	2013
Common shares	\$ 1,139,022	\$ 1,024,423
Class "G" preferred shares	—	—
Class "H" preferred shares	—	—
	<u>\$ 1,139,022</u>	<u>\$ 1,024,423</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 13. SHARE CAPITAL (Continued)

### 13.1 Common shares

Years ended December 31,	2014		2013	
	Number of shares	\$	Number of shares	\$
Balance, beginning of year	3,067,167,791	1,024,423	2,831,713,161	991,758
Private placement	821,242,193	119,123	106,800,000	24,918
Issue of shares under employee share savings plan (Note 14.2)	5,772,789	835	3,014,630	721
Director share arrangement (Note 14.3)	1,920,418	261	—	—
Reclassification of share purchase warrants (Note 13.2)	—	(4,751)	—	(3,832)
Conversion of preferred shares exercised <sup>1</sup>	—	—	78,945,000	40
Issue of shares under share option plan (Note 14)	—	—	46,695,000	8,390
Share option reserve transferred on exercise of stock options	—	—	—	3,251
Share issue costs, net of tax	—	(869)	—	(823)
Balance, end of year	<u>3,896,103,191</u>	<u>1,139,022</u>	<u>3,067,167,791</u>	<u>1,024,423</u>

1. Relates to conversion of 82,390,000 Class "G" and Class "H" preferred shares (Note 13.3, 13.4)

During year ended December 31, 2014, the Company issued 640,000,000 Class "A" common shares in private placements at a price of HK \$0.85 per share (approximately \$0.12 per share) for gross proceeds of HK\$544.0 million or approximately \$75.4 million.

During the year ended December 31, 2014, the Company also completed closings of equity private placements, totalling 181,242,193 Units at a price of HK\$1.70 per Unit (approximately \$0.24 per Unit) for gross proceeds of HK\$308.1 million or approximately \$43.8 million. Each Unit was 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 \$0.28 per common share) for a period of 24 months following the closing date. These warrants were valued at an average of \$0.04 per warrant for a total of C\$2.2 million. As part of a finders' fee, the Company issued two-fifths of a warrant for each purchased Unit. These finders' fee warrants were valued at \$0.04 per warrant for a total of \$2.6 million. Total value of warrants granted during the year ended December 31, 2014, was \$4.8 million (Note 13.2). The ascribed values of the warrants at issuance were determined using the Black-Scholes fair value pricing model based on a risk free rate of 0.98-1.05%, expected volatility of 43.01% and an expected life of two years. The total cost to complete the private placements was \$0.9 million which includes a 3% finders' fee of HK\$4.6 million (approximately \$0.7 million) to the finder of 90,588,235 Units.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 13. SHARE CAPITAL (Continued)

### 13.1 Common shares (Continued)

In December, 2013, the Company completed the closing of a private placement of 106,800,000 Units at a price of HK \$1.70 per Unit (approximately \$0.23 per Unit). Each Unit was 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 \$0.26 per common share) for a period of 24 months following the closing date. These warrants were valued at \$0.04 per warrant for a total of \$1.7 million. As part of a finders' fee, the Company issued two-fifths of a warrant for each purchased Unit. These finders' fee warrants were valued at \$0.04 per warrant for a total of \$2.1 million. Total value of all warrants at December 31, 2013, was \$3.8 million (Note 13.2). 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 \$0.7 million which included a 3% finders' fee on gross proceeds (Note 13.2).

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. For the year ended December 31, 2014, the Company recognized a gain of \$8.2 million related to the re-measurement of the fair value of share purchase warrants in the consolidated statements of operations and comprehensive loss (Note 13.2) based on a risk free rate of 1.01%, expected volatility of 65.09% and an expected life of 0.9 - 1.2 years.

During the year ended December 31, 2014, the Company issued 5,772,789 Class "A" common shares from the Company's employee share savings plan for gross proceeds of \$0.8 million.

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.

During the year ended December 31, 2014 and 2013, there were no share repurchases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 13. SHARE CAPITAL (Continued)

### 13.2 Share purchase warrants

Years ended December 31,	2014		2013	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance, beginning of year	78,320,000	0.26		—
Granted	132,910,941	0.27	78,320,000	0.26
Balance, end of year	<u>211,230,941</u>	<u>0.28</u>	<u>78,320,000</u>	<u>0.26</u>
Exercisable, end of year	<u>211,230,941</u>	<u>0.28</u>	<u>78,320,000</u>	<u>0.26</u>

As at December 31, 2014, the share purchase warrants outstanding had a weighted average remaining contractual life of 1.04 years (December 31, 2013 - 1.94).

The table below details the fair value of warrants granted in the period:

Years ended December 31,	2014	2013
Balance, beginning of period	\$ 3,832	\$ —
Issued under private placement	4,751	3,832
Fair value adjustment	<u>(8,201)</u>	<u>—</u>
Balance, end of period	<u>\$ 382</u>	<u>\$ 3,832</u>

### 13.3 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 converted into Class "A" common shares or cancelled as outlined below.

Years ended December 31,	2014			2013		
	Number of shares	\$	Weighted average price \$	Number of shares	\$	Weighted average price \$
Balance, beginning of year	—	—	—	60,440,000	29	0.33
Converted	—	—	—	(60,190,000)	(29)	0.33
Cancelled	—	—	—	(250,000)	—	—
Balance, end of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Convertible, end of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 13. SHARE CAPITAL (Continued)

### 13.4 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 converted into Class "A" common shares as outlined below.

Years ended December 31,	2014			2013		
	Number of shares	\$	Weighted average price \$	Number of shares	\$	Weighted average price \$
Balance, beginning of year	—	—	—	22,200,000	11	0.42
Converted	—	—	—	(22,200,000)	(11)	0.42
Balance, end of year	—	—	—	—	—	—
Convertible, end of year	—	—	—	—	—	—

## 14. SHARE-BASED PAYMENTS

### 14.1 Employee stock option plan

#### *Post-IPO Stock Option Plan:*

On January 26, 2012, the Post-IPO Stock Option Plan was approved and adopted by shareholders at the Company's Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Company's IPO closing and listing on the SEHK, March 1, 2012. The maximum number of Class "A" common shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the options already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the last Annual and Special Meeting of Shareholders on June 24, 2014. 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.

### 14.2 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 from treasury. Compensation expense is recognized based on the fair value of the award on the ESSP contribution date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 14. SHARE-BASED PAYMENTS (Continued)

### 14.3 Director Share Arrangements

At the Annual and Special Meeting of Shareholders of the Company held on June 25, 2014, shareholders approved the option of payment of 50% of the directors' base retainer fees to directors in shares in lieu of cash in respect of the period from October 1, 2013 to June 25, 2014 and future base retainer fees. Shareholders also approved the option of payment of 50% of the base fees payable to the co-chairmen in shares in lieu of cash in respect of the period from April 1, 2014 to June 25, 2014 and in relation to future base co-chairman fees.

Upon approval, at the discretion of the Board, the option of payment of shares in lieu of cash will result in an expense to share based payments and reversal of directors and/or employment or consulting fees as applicable. For the year ended December 31, 2014, 1.9 million shares were issued in lieu of cash resulting in a \$0.3 million expense to share based payment and a \$0.3 million reversal of directors and consulting/employment fees payable.

### 14.4 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, 2014 was \$0.06 (2013:\$0.25). 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 2014. 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 11.04 to 11.13% (2013:5.20-6.12%).

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	2014	2013
Grant date share price (\$)	0.09-0.135	0.25-0.26
Exercise Price (\$)	0.09-0.135	0.25-0.26
Expected volatility (%)	64.84-65.84	49.19-50.37
Option life (years)	4.1	3.0
Dividend yield (%)	—	—
Risk-free interest rate (%)	1.21-1.40	1.08-1.12
Expected forfeitures (%)	11.04-11.13	5.20-6.12

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 14. SHARE-BASED PAYMENTS (Continued)

### 14.5 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,	2014		2013	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance, beginning of year	135,145,593	0.43	192,505,688	0.37
Granted	70,619,940	0.13	6,850,368	0.25
Exercised	—	—	(46,695,000)	0.18
Forfeited	(70,038,244)	0.37	(17,515,463)	0.39
Balance, end of year	135,727,289	0.30	135,145,593	0.43
Exercisable, end of year	81,378,764	0.36	102,500,487	0.39

As at December 31, 2014, the stock options outstanding had a weighted average remaining contractual life of 3.3 years (December 31, 2013 - 2.4 years).

### 14.6 Share-based compensation

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

Years ended December 31,	2014			2013		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$2,270	\$941	\$3,211	\$ 3,233	\$ 728	\$ 3,961
Director share arrangement	261	—	261	—	—	—
Preferred shares	—	—	—	6,065	3,277	9,342
	\$2,531	\$941	\$3,472	\$ 9,298	\$ 4,005	\$ 13,303

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 16. FINANCE COSTS

For the years ended December 31,	2014	2013
Interest expense on senior secured notes	\$ 8,909	\$ —
Amortization of financing transaction costs and discount	4,259	—
Finance cost on credit facility	—	1,541
Financing related costs	1,720	2,597
Other interest expense	267	—
Unwinding of discounts on provisions	761	637
	<u>\$ 15,916</u>	<u>\$ 4,775</u>

## 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,	2014	2013
Basic and Diluted – Class "A" common shares	3,567,916,546	2,884,205,670
Stock options	135,727,289	135,145,593

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 18. FINANCIAL INSTRUMENTS (Continued)

### 18.1 Capital risk management (Continued)

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

	2014	2013
Working capital (surplus)/deficiency	\$ (138,249)	\$ 103,182
Senior secured notes	210,050	—
Shareholders' equity	972,016	880,973
	<u>\$ 1,043,817</u>	<u>\$ 984,155</u>

There was no change in the Company's objectives and strategies of capital management for the year ended December 31, 2014.

### 18.2 Categories of financial instruments

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash, restricted cash and cash equivalents, deposits and other receivables	\$178,789	\$178,789	\$17,611	\$17,611
<b>Financial liabilities</b>				
Other liabilities	28,128	23,828	120,114	120,114
Share purchase warrants	382	382	3,832	3,832
Long-term debt	210,050	180,850	—	—

### 18.3 Fair value of financial instruments

The fair value of cash, restricted cash and cash equivalents, deposits, trade and other receivables and trade and accrued liabilities 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. The fair value of the long-term debt was 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 18. FINANCIAL INSTRUMENTS (Continued)

### 18.4 Financial risk management

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

### 18.5 Market risk

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

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 Currency risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt which are denominated in US dollars. 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, 2014. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2014 would have been impacted by approximately \$0.5 million. At December 31, 2014, the Company held approximately US\$47.3 million or \$54.9 million using the December 31, 2014 exchange rate of 1.1601, as cash in the Company's US bank accounts.

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

<b>For the years ended December 31,</b>	<b>2014</b>	<b>2013</b>
Unrealized foreign exchange loss (gain) on translation of:		
U.S. denominated senior secured notes	<b>\$11,117</b>	\$—
Foreign currency denominated cash balances	<b>(2,702)</b>	(44)
Foreign currency denominated accounts payable balances	<b>557</b>	(5)
	<b>\$ 8,972</b>	\$ (49)
Realized foreign exchange loss	<b>190</b>	—
<b>Total foreign exchange loss/(gain)</b>	<b>\$ 9,162</b>	<b>\$ (49)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 18. FINANCIAL INSTRUMENTS (Continued)

### 18.7 Interest rate risk management

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2014, the Company does not have any floating rate debt.

The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values or result in material interest rate risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. For the year ended December 31, 2014, the interest rate earned on cash was between 0.5% and 1.30%.

The Company's restricted cash and cash equivalents, consists of US\$30 million held in a treasury bill and two treasury notes. In addition, \$0.3 million of restricted cash is held by the legal counsel of the Company. For the year ended December 31, 2014, the interest rate earned on the treasury bill and treasury notes was between 0.02% and 0.26%.

The Company's long-term debt consists of senior secured notes that bear interest at a fixed interest rate of 10% per annum.

### 18.8 Credit risk management

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash, deposits and receivables and GST receivables. As at December 31, 2014, the Company's receivables consisted of 45% from Goods and Services Tax receivable, 37% joint interest billing receivable and 18% from other receivables (2013 - 46% from Goods and Services Tax receivable and 51% from joint interest billing receivable and 3% from other receivables).

The Company's cash as at December 31, 2014, are held in accounts with third party financial institutions and consist of invested cash and cash in the Company's operating accounts.

The Company is exposed to credit risk from the purchasers of its crude oil. At December 31, 2014, 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 impaired (2013 - \$Nil). The Company considers any amounts outstanding in excess of 30 days past due.

### 18.9 Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or debt proceeds. For the year ended December 31, 2014, the Company had a positive working capital of \$138.2 million and an accumulated deficit of \$227.7 million. The Company's ability to continue as a going concern is dependent on completion of West Ells development and the ability to access 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 18. FINANCIAL INSTRUMENTS (Continued)

### 18.9 Liquidity risk management (Continued)

The timing of cash outflows (excluding interest) relating to financial liabilities as at December 31, 2014, are as follows:

	Total	Less than 1 year	1 -2 years
Trade and accrued liabilities	\$ 28,128	\$ 28,128	\$ —
Long-term debt <sup>1</sup>	232,020	—	232,020
	<u>\$ 260,148</u>	<u>\$ 28,128</u>	<u>\$ 232,020</u>

1. Principal amount of Notes based on the period end exchange rate of \$1 US = 1.1601 CDN

## 19. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiary, who are related parties, have been eliminated on consolidation. All related party transactions disclosed below were incurred by the Company.

### 19.1 Trading transactions

The Company had transactions with a law firm in which Mr. Turnbull a director of the Company is a partner. Mr. Turnbull was a director until the time of his resignation on November 28, 2014. The table below includes all transactions between the Company and the law firm for the year ended December 31, 2014. The legal costs incurred were in the normal course of operations and were based on the exchange value of the services provided, which approximates those amounts of consideration with third parties.

During the year ended December 31, 2014, the Company paid consulting fees to two directors of the Company (Note 19.2). Mr. Michael Hibberd, Executive Vice-Chairman and a director of the Company, purchased US\$2 million principal amount of Notes in August 2014 at the offering price.

During the year, the Company recorded the following trading transactions with related parties<sup>1</sup>:

For the year ended December 31,	2014	2013
Legal expense	\$ 1,185	\$ 926
Finance fees	187	235
Capitalized legal fees	—	272
Financing transaction costs on Notes	82	—
	<u>\$ 1,454</u>	<u>\$ 1,433</u>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 19. RELATED PARTY TRANSACTIONS (Continued)

### 19.1 Trading transactions (Continued)

The following balances were outstanding and included in prepaids in 2014 resulting in a credit (2013 - trade and accrued liabilities):

	2014	2013
Legal	<u>\$ (254)</u>	<u>\$ 887</u>

### 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,	2014	2013
Directors' fees	\$ 566	\$ 750
Salaries and allowances	1,515	1,491
Share-based payments	1,812	9,428
Consulting fees <sup>1</sup>	332	900
	<u>\$ 4,225</u>	<u>\$ 12,569</u>

1. Details disclosed in Appendix A2 and A3 of these consolidated financial statements.

## 20. OPERATING LEASE ARRANGEMENTS

### Payments recognised as an expense

For the year ended December 31,	2014	2013
Minimum lease payments	<u>\$ 2,246</u>	<u>\$ 2,343</u>

## 21. COMMITMENTS AND CONTINGENCIES

As at December 31, 2014, the Company's commitments are as follows:

	Total	2015	2016	2017	2018	2019	Thereafter
Repayment of long-term debt <sup>1</sup>	\$ 232,020	—	232,020	—	—	—	—
Interest payments on long-term debt <sup>2</sup>	46,404	23,202	23,202	—	—	—	—
Drilling, other equipment and contracts	12,011	8,600	3,354	28	29	—	—
Lease rentals <sup>3</sup>	10,022	1,200	1,187	1,169	1,169	1,169	4,128
Office leases	11,342	2,822	2,822	2,688	2,408	602	—
	<u>\$ 311,799</u>	<u>35,824</u>	<u>262,585</u>	<u>3,885</u>	<u>3,606</u>	<u>1,771</u>	<u>4,128</u>

- Principal amount of Notes based on the period end exchange rate of \$1 US = 1.1601 CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not yet been satisfied.
- Based on 10% per annum and a maturity date of August 1, 2016, at the period exchange rate of \$1 US = 1.1601 CDN.
- The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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

## 21. COMMITMENTS AND CONTINGENCIES (Continued)

Following suspension of construction at the Company's West Ells SAGD project in August 2013, many suppliers, following normal practice in Canada, placed builders' liens on the West Ells property to secure past due and unpaid invoices. Through the normal course of business, the Company recorded the unpaid invoices in trade and accrued liabilities. On December 5, 2013, the Company reached forbearance agreements with all then current lien holders and litigants until February 28, 2014. On February 15, 2014, the Company reached a further forbearance agreement with all then current lien holders and litigants to extend the forbearance period to May 31, 2014. On June 27, 2014, the Company reached a further forbearance agreement with all then current lien holders and litigants to extend the forbearance period to July 31, 2014. The Company paid 25% of all past due and unpaid invoices in December, 2013, 20% payment of all past due and unpaid invoices in early March, 2014, 40% payment of all past due and unpaid invoices in late June to early July, 2014, in exchange for these three forbearance agreements. During 2014 the Company has raised equity funds disclosed in Note 13 and completed additional financing, through the \$20 million sale of assets and the issuance of US\$200 million Senior Secured notes (Note 10), to enable it to meet these obligations and clear up these issues and continue developing its business. The Company obtained discharge of the remaining outstanding liens by October 7, 2014, thus satisfying the condition in the Notes (Note 10). The aggregate value of the claims outstanding against Sunshine related to claiming payment for unpaid invoices was approximately \$1.0 million as at December 31, 2014. Sunshine continues to work toward resolution of these claims.

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 \$40 million plus interest at 15% per annum since the date of the Share Subscription Agreement. The Company's Statement of Defence was filed on April 2, 2014. Management considers the Action to be unfounded. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2014 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, 2014, 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, 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

## 22. SUPPLEMENTAL CASH FLOW DISCLOSURES (Continued)

For the year ended December 31,

### Cash provided by (used in):

	2014	2013
Trade and other receivables	\$ (619)	\$ 861
Prepays and deposits	(5,187)	45
Trade and accrued liabilities	(92,552)	51,293
	<u>\$ (98,358)</u>	<u>\$ 52,199</u>

### Changes in non-cash working capital relating to:

#### Operating activities

Trade and other receivables	\$ (1,108)	\$ 404
Prepaid expenses and deposits	(5,187)	45
Trade and accrued liabilities	(5,065)	4,257
	<u>(11,360)</u>	<u>4,706</u>

#### Investing activities

Exploration and evaluation assets	—	—
Property, plant and equipment	(94,424)	46,171
	<u>(94,424)</u>	<u>46,171</u>

#### Financing activities

Share issue costs, IPO costs and finance costs	7,426	1,322
	<u>7,426</u>	<u>1,322</u>
	<u>\$ (98,358)</u>	<u>\$ 52,199</u>

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

#### Reconciliation of:

Exploration and evaluation assets	\$ 5,232	\$ 12,745
Changes in non-cash working capital	—	—
	<u>5,232</u>	<u>12,745</u>

#### Reconciliation of:

Property, plant and equipment	\$ 46,554	\$ 316,679
Changes in non-cash working capital	94,424	(46,171)
	<u>140,978</u>	<u>270,508</u>

#### Reconciliation of:

Share issue costs, IPO costs and finance costs	11,504	4,139
Changes in non-cash working capital	(7,426)	(1,322)
	<u>\$ 4,078</u>	<u>\$ 2,817</u>

## 23. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 26, 2015.

# APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

## ADDITIONAL STOCK EXCHANGE INFORMATION

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

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

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

	2014	2013
<i>Non-current assets</i>		
Property, plant and equipment	\$ 701,735	\$ 634,670
Exploration and evaluation assets	379,403	376,912
Amounts due from subsidiary	1,530	825
Restricted cash and cash equivalents	11,601	—
	<u>1,094,269</u>	<u>1,012,407</u>
<i>Current assets</i>		
Other receivables	1,913	1,295
Prepays and deposits	5,843	656
Restricted cash and cash equivalents	23,467	
Cash	136,087	15,847
	<u>167,310</u>	<u>17,798</u>
<i>Current liabilities</i>		
Trade and accrued liabilities	28,074	120,095
Provisions for decommissioning obligations	834	872
Share purchase warrants	109	3,832
Amount due to subsidiary	1,567	339
	<u>30,584</u>	<u>125,138</u>
Net current assets (liabilities)	<u>136,726</u>	<u>(107,340)</u>
Total assets less current liabilities	<u>1,230,995</u>	<u>905,067</u>
<i>Non-current liabilities</i>		
Long-term debt	210,050	—
Provisions for decommissioning obligations	48,650	23,597
Share purchase warrants	273	—
	<u>258,973</u>	<u>23,597</u>
Net assets	<u>\$ 972,022</u>	<u>\$ 881,470</u>
<i>Capital and reserves</i>		
Share capital	\$ 1,139,022	\$ 1,024,423
Reserve for share-based compensation	60,658	57,447
Deficit	<u>(227,658)</u>	<u>(200,400)</u>
	<u>\$ 972,022</u>	<u>\$ 881,470</u>

# APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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,

	2014	2013
<i>Directors' emoluments</i>		
Directors' fees	\$ 566	\$ 750
Salaries and allowances	557	900
Share-based payments	2,158	6,803
	<b>3,281</b>	<b>8,453</b>
<i>Other staff costs</i>		
Salaries and other benefits	11,934	13,492
Contribution to retirement benefit scheme	292	385
Share-based payments	1,313	6,499
	<b>13,539</b>	<b>20,376</b>
Total staff costs, including directors' emoluments	<b>16,820</b>	<b>28,829</b>
Less: staff costs capitalized to qualifying assets	<b>6,937</b>	<b>12,729</b>
	<b>\$ 9,883</b>	<b>\$ 16,100</b>

Details of the Directors' emoluments are as follows:

Name of Director	For the year ended December 31, 2014					Total
	Directors' fees <sup>7</sup>	Salaries and allowances <sup>7</sup>	Contribution to retirement benefits scheme	Share-based compensation <sup>7</sup>	Performance related incentive payments	
Michael Hibberd	\$ 67	\$ 391	\$ —	\$ 846	\$ —	\$ 1,304
Songning Shen <sup>1</sup>	29	166	—	841	—	1,036
Tseung Hok Ming	38	—	—	68	—	106
Tingan Liu	56	—	—	—	—	56
Hoatian Li	50	—	—	48	—	98
Raymond Fong	52	—	—	68	—	120
Wazir (Mike) Seth <sup>2</sup>	32	—	—	(42)	—	(10)
Greg Turnbull <sup>3</sup>	40	—	—	(20)	—	20
Robert Herdman	69	—	—	68	—	137
Gerald Stevenson	65	—	—	68	—	133
Jin Hu <sup>4</sup>	27	—	—	5	—	32
Zhefei Song <sup>4</sup>	31	—	—	—	—	31
Hong Luo <sup>5</sup>	6	—	—	48	—	54
Qi Jiang <sup>6</sup>	4	—	—	160	—	164
	<b>\$ 566</b>	<b>\$ 557</b>	<b>\$ —</b>	<b>\$ 2,158</b>	<b>\$ —</b>	<b>\$ 3,281</b>

# APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Mr. Shen was a director and Co-Chairman until the time of his resignation on July 6, 2014.
2. Mr. Seth was a director until the time of his resignation on July 6, 2014.
3. Mr. Turnbull was a director until the time of his resignation on November 28, 2014.
4. Mr. Hu and Mr. Song commenced as directors in June, 2014.
5. Mr. Luo commenced as a director in November, 2014.
6. Mr. Jiang commenced as a director in December, 2014.
7. For the year ended December 31, 2014, \$150 thousand of previously recognized directors fees and \$106 thousand of salaries and allowances were deducted from salaries and allowances and reclassified as share-based compensation as the amounts were settled in shares (Note 14.3)

For the year ended December 31, 2013

Name of Director	Directors' fees	Salaries and allowances	Contribution	Share-based compensation	Performance	Total
			to retirement benefits scheme		related incentive payments	
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
	<u>\$ 750</u>	<u>\$ 900</u>	<u>\$ —</u>	<u>\$ 6,803</u>	<u>\$ —</u>	<u>\$ 8,453</u>

## A3. Five highest paid individuals

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

For the years ended December 31,	2014	2013
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$3,000,001 to HK\$3,500,000	2	—
HK\$6,000,001 to HK\$6,500,000	—	1
HK\$6,500,001 to HK\$7,000,000	—	—
> HK\$7,000,000	2	4

For the year ended December 31, 2014, the conversion factor used in the above table is 1C\$ = 7.02HK\$ (year ended December 31, 2013 - 1C\$ = 7.55 HK\$)

The five highest paid individuals includes two directors of the Company and three key management executives of the Company for the year ended December 31, 2014 (year ended December 31, 2013 - three directors and two management). Since the directors' emoluments are disclosed above, the compensation of the three key management executives for the Company is as follows:

For the years ended December 31,	2014	2013
Salaries and other benefits	\$ 988	\$ 721
Contributions to retirement benefits scheme	5	5
Share-based payments	146	2,083
	<u>\$ 1,139</u>	<u>\$ 2,809</u>

## A4. Senior management remuneration by band

The emoluments fell within the following bands:

For the years ended December 31,	2014	2013
HK\$ nil to HK\$1,000,000	2	—
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	2	—
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$3,000,001 to HK\$3,500,000	2	—
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$6,000,001 to HK\$6,500,000	—	1
> HK\$7,000,000	2	3

For the year ended December 31, 2014, the conversion factor used in the above table is 1C\$ = 7.02HK\$ (year ended December 31, 2013 - 1C\$ = 7.55 HK\$)

The table above includes the remuneration for the executive directors and executive officers of the Company. As at December 31, 2014, \$0.3 million (2013 - \$0.1 million) was the total payable to four members (2013 - two members) of senior management and included in trade and accrued liabilities.

## BOARD OF DIRECTORS:

### Executive Directors:

Mr. Michael J. Hibberd (*Vice-Chairman*)  
Dr. Qi Jiang  
Mr. Jin (Jimmy) Hu

### Non-Executive Directors:

Mr. Tingan Liu (*Chairman*)  
Mr. Haotian Li  
Mr. Hong Luo  
Mr. Hok Ming Tseung

### Independent Non-Executive Directors:

Mr. Raymond S. Fong  
Mr. Robert J. Herdman  
Mr. Gerald F. Stevenson  
Mr. Zhefei (Bill) Song

## JOINT COMPANY SECRETARIES:

Mr. Tingan Liu  
Mr. Richard W. Pawluk

## AUTHORIZED REPRESENTATIVES:

Mr. Haotian Li  
Mr. Tingan Liu

## AUDITORS:

Deloitte LLP

## AUDIT COMMITTEE:

Mr. Robert J. Herdman (*Chairman*)  
Mr. Gerald F. Stevenson  
Mr. Raymond S. Fong  
Mr. Zhefei (Bill) Song

## COMPENSATION COMMITTEE:

Mr. Robert J. Herdman (*Chairman*)  
Mr. Hok Ming Tseung  
Mr. Raymond S. Fong  
Mr. Jin (Jimmy) Hu  
Mr. Zhefei (Bill) Song

## RESERVES COMMITTEE:

Mr. Gerald F. Stevenson (*Chairman*)  
Mr. Raymond S. Fong  
Dr. Qi Jiang

## CORPORATE GOVERNANCE COMMITTEE:

Mr. Michael J. Hibberd (*Chairman*)  
Mr. Haotian Li  
Mr. Tingan Liu

## CORPORATE HEADQUARTERS:

Suite 1020, 903 Eighth Avenue SW  
Calgary, Alberta  
T2P 0P7 Canada  
Tel: (403) 984-1450  
Fax: (403) 455-7674  
Email: [information@sunshineoilsands.com](mailto:information@sunshineoilsands.com)

## REGISTERED OFFICE IN ALBERTA:

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Canada  
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Fax: (403) 260-3501  
Email: [info@mccarthy.ca](mailto:info@mccarthy.ca)

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

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Tel: (852) 3188-9295  
Fax: (852) 6311-0005  
Email: [information@sunshineoilsands.com](mailto:information@sunshineoilsands.com)

## SHARE REGISTRAR IN HONG KONG:

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183 Queen's Road East, Wanchai  
Hong Kong  
Email: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)

## SHARE REGISTRAR IN ALBERTA:

Alliance Trust Company  
Suite 1010, 407 Second Street SW  
Calgary, Alberta  
T2P 2Y3 Canada  
Email: [inquiries@alliancetrust.ca](mailto:inquiries@alliancetrust.ca)

## COMPETENT PERSONS:

DeGolyer and MacNaughton Canada Limited  
GLJ Petroleum Consultants Limited

## PRINCIPAL BANKERS:

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

## LEGAL ADVISERS:

McCarthy Tétrault LLP  
Freshfields Bruckhaus Deringer

## WEBSITE:

[www.sunshineoilsands.com](http://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.**