SUNSHINE OILSANDS LTD.

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

(HKEX: 2012)

Annual Report 2015

CONTENTS

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 plant supplies steam to the well pads (not shown in the picture) and process all fluids produced from SAGD wells. The plant and well pads have be on operational since September, 2015. 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

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As at and for the year ended December 31	**2015**	2014	2013	2012	2011
	($000s)	($000s)	($000s)	($000s)	($000s)
Cash and cash equivalents	**6,545**	136,097	15,854	282,231	84,957
Current restricted cash and cash equivalents	**14,389**	23,467	—	—	—
Non-current restricted cash and cash equivalents	—	11,601	—	—	—
Exploration and evaluation assets	**290,945**	379,403	376,912	366,668	382,277
Property, plant and equipment	**650,930**	701,736	634,672	327,971	719
Total liabilities	**369,083**	288,044	148,415	108,650	327,127
Shareholders' equity	**604,098**	972,016	880,973	871,076	148,587
Net loss	**406,135**	26,767	32,780	61,728	67,392
Net loss per share ($ per basic and diluted share)	**0.10**	0.01	0.01	0.02	0.05

In 2015, Sunshine (the "Corporation") focused on completion of the West Ells Phase I construction and achieved a successful start-up of the facilities. For the year ended December 31, 2015, the Corporation achieved progress in the following areas:

- Completed West Ells Phase I construction activities;
- Substantially commissioned systems for the West Ells central processing plant and well pad;
- Completed all down hole equipment, installation and surface tie ins for eight West Ells well pairs;
- Successful start-up and operation of West Ells surface facilities in the central processing plant and well pad;
- Achieved first steam injection in two well pairs on September 22, 2015; achieved first oil production on December 7, 2015; and
- Achieved expected reservoir response to injection and production operations.

The Corporation currently expects to continue operation of the West Ells plant at a loss during the current challenging oil price environment to prove the reservoir performance and capabilities.

The Corporation's Capital Raising Activities

a. On August 20, 2015, the Corporation completed a partial closing of a private placement offering of Class "A" common shares (the "Common Shares"), (under the specific mandate) to (i) Prime Union Enterprises Limited, a company directly wholly owned by Mr. Kwok Ping Sun (an Executive Chairman and Executive Director and a substantial shareholder of the Corporation); (ii) Mr. Michael John Hibberd (a Non-Executive Vice-Chairman and a Non-Executive Director); (iii) Dr. Qi Jiang (an Executive Director and the President and Chief Operating Officer of the Corporation); (iv) Mr. Raymond Shenti Fong (an Independent Non-Executive Director); (v) Mr. Zhefei Song (an Independent Non-Executive Director) and certain senior managers and employee of the Corporation and its subsidiaries (the "Group"), for a total of 111,214,210 Common Shares at a price of HK$0.75 per share (approximately CDN$0.13 per share) for total gross proceeds of HK$83.4 million or approximately CDN$14.1 million. The net price to the Corporation of each Common Share was HK$0.746 and the market price of each Common Share on the date on which the terms of subscription were fixed (the "Subscription Date") was HK$0.93.

b. On September 30, 2015, the Corporation closed a private placement offering of Common Shares, (under the general mandate) to Coherent Gallery International Limited, for a total of 100,000,000 Common Shares at a price of HK$0.50 per share (approximately CDN$0.08 per share) for total gross proceeds of HK$50 million or approximately CDN$8.6 million. The net price to the Corporation of each Common Share was HK$0.493 and the market price of each Common Share on the Subscription Date was HK$0.62.

c. On November 23, 2015, the Corporation closed a private placement offering of Common Shares, (under the general mandate) to Mr. Junhua Huang, for a total of 36,912,000 Common Shares at a price of HK$0.63 per share (approximately CDN$0.11 per share) for total gross proceeds of HK$23.3 million or approximately CDN$4.0 million. The net price to the Corporation of each Common Share was HK$0.611 and the market price of each Common Share on the Subscription Date was HK$0.78.

d. On November 30, 2015, the Corporation closed a private placement offering of Common Shares, (under the general mandate), to Able Honour Holdings Limited, for a total of 78,125,000 Common Shares at a price of HK$0.64 per share (approximately CDN$0.11 per share) for total gross proceeds of HK$50 million or approximately CDN$8.6 million. The net price to the Corporation of each Common Share was HK$0.618 and the market price of each Common Share on the Subscription Date was HK$0.76.

In respect of the private placement mentioned in (a) above, the Directors were of the view that the subscription would provide an incentive to retain or otherwise maintain on-going relationships with the subscribers whose contributions are or will be beneficial to the long-term growth and development of the Group. The funds from the subscriptions would help the Corporation at an important stage of development The Directors believed that the subscriptions were a simple and straightforward way for the Corporation to raise financing to advance its West Ells project towards completion and production on favourable terms. As at December 31, 2015, HK$83.4 million has been used as intended.

In respect of the private placements mentioned in (b) to (d) above, the Directors considered that the private placements represented an opportunity to raise capital for the Corporation at an important time for the Corporation. The intended uses of the proceeds from the above capital raising activities were (i) for working capital of the Corporation and its subsidiaries and (ii) as funds for future development of the existing business of the Group, including funding the development and operation costs of the West Ells projects. As at February 29, 2016, all the proceeds from the private placements have been used as intended.

Summary of Financial Figures

For the fourth quarter of 2015, the Corporation had a net loss of $325.8 million, primarily attributable to asset impairments, compared to $12.3 million for the same period in 2014, representing a net loss per share for each respective year of $0.08 and $0.00. For the year ended December 31, 2015, the Corporation had a net loss of $406.1 million compared to $26.8 million for the year ended December 31, 2014, representing a net loss per share for each respective year of $0.10 and $0.01.

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

	2015 ($000s)	2014 ($000s)
Cash and cash equivalents	**6,545**	136,097
Current restricted cash and cash equivalents	**14,389**	23,467
Prepaid expenses and deposits	**8,119**	5,843
Non-current restricted cash and cash equivalents	—	11,601
Exploration and evaluation assets	**290,945**	379,403
Property and equipment	**650,930**	701,736
Total liabilities	**369,083**	288,044
Shareholders' equity	**604,098**	972,016

Reserves and Resources

On March 29, 2015, the Corporation announced the results of its reserves and resources evaluations, effective as at December 31, 2015. 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, 2015, a copy of which is available on the Stock Exchange of Hong Kong Limited ("SEHK") website at www.hkexnews.hk, on the SEDAR website at www.sedar.com and on the Corporation's website at www.sunshineoilsands.com.

Reserves and resources evaluations, dated December 31, 2015, have been completed by independent evaluators, GLJ Petroleum Consultants (GLJ) and DeGolyer and MacNaughton Canada Limited (D&M). The following tables summarize the overall reserves information as well as contingent resource volumes.

	Reserves (Bitumen)					
	Proved		Proved Plus Probable		Proved Plus Probable Plus Possible	
	Gross (Mbbls)	PV10% ($M)	Gross (Mbbls)	PV10% ($M)	Gross (Mbbls)	PV10% ($M)
Total	85,730	145,843	421,797	489,096	601,563	1,111,187

Compared to 2014 reserves volumes, there was no major change in the assignment of reserve volumes by the independent reserves evaluators. Properties with assigned reserves include the West Ells, Thickwood and Legend Lake areas. The Corporation completed no exploratory or development wells in 2015. Detailed technical data examination resulted in an adjustment in the "probable" reserves category due to the change in oil price.

In connection with PV10% values, assumed price deck reductions to a starting point of WTI US$44 from WTI US$62.5 resulted in a significant decrease in assigned values in 2015 compared to 2014.

	Best Estimate Contingent Resources Gross (Mbbls)
Total Development Pending	5,343
Total Development on Hold	441,696
Total Development Unclarified	991,820

As with the reserves values, values assigned to Sunshine's Contingent Resources were reduced due to assumed price deck reductions used in the evaluation reports. The starting point pricing assumption of WTI US$44, down from WTI US$62.5 resulted in a significant risk factors including the chance of commerciality, which were imposed by the Canadian regulator. The reduction of forecasted WTI, removal of carbonates volumes and delay of development are other factors which reduced the overall PV10% values.

In connection with pricing assumptions and costs used by the independent evaluators, the following is worth noting. WTI has averaged approximately US$50 year to date, which is higher than the US$44 starting point used in the reserve and resource evaluation reports; the Canadian dollar is at $0.78 US but it is assumed to be a weaker $0.725 US in the reserve and resource evaluation reports.

2016 Outlook

As at the date of this message to shareholders, construction of the West Ells facilities is complete with first oil having been achieved in December 2015. Currently, all eight well pairs from West Ells Phase I are on steam injection, with the first two well pairs on continuous production. It is expected that remaining well pairs will be switched to continuous production in the first half of 2016. The Corporation is fully committed to advancing its corporate initiatives and expects to operate the plant to prove the reservoir performance.

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 Phase 1 West Ells facilities operate efficiently and achieve nameplate capacity. At the same time, we are continuing with efforts to secure capital to support existing operations and to fund our expansion plans in West Ells and other clastic project areas.

"Kwok Ping Sun"
Chairman of the Board

"Hong Luo"
Executive Director, CEO

"Qi Jiang"
Executive Director, President and COO

EXECUTIVE CHAIRMAN AND DIRECTOR

Mr. Kwok Ping Sun ("Mr. Sun"), aged 51, is an Executive Chairman and Executive Director appointed by the Board on June 28, 2015. He was appointed as a Non-Executive Director by the Board on May 27, 2015. Mr. Sun is the founder of Nobao Renewable Energy Holdings Limited ("Nobao") and has served as the Chairman of the Board, Director and Chief Executive Officer of Nobao since its inception in 2007. Prior to founding Nobao, Mr. Sun was the General Manager of Shanghai Nobao Electric Appliance Co., Ltd from 2005 to 2007. In 2003, Mr. Sun started his own research and development with respect to ground source heat pump (GSHP) systems and gained over 10 years of experience in this area. From 1999 to 2002, Mr. Sun served as the General Manager of Dynamic Co., Ltd of Denmark and was responsible for developing wind power projects in China in cooperation with Chinese local companies. From 1994 to 1998, Mr. Sun was the Chief Executive Officer of Wu Fong Investment Co., Ltd of Denmark. Between 1983 and 1990, Mr. Sun worked as an Official of the customs department, the publicity department and the foreign trade bureau of the City Government of Zhangjiagang, Jiangsu Province, People's Republic of China. Mr. Sun has over 20 years of experience in automated control systems through his experiences described above as well as his experience as the General Manager of Jiangsu Zhongwang Electronics Co., Ltd. between 1990 and 1993 and as an Engineer of Zhangjiagang Radio Factory between 1979 and 1982. Mr. Sun graduated from Suzhou Transportation Vocational College in 1985 and received an EMBA degree from Tsinghua University in 2006.

NON-EXECUTIVE VICE CHAIRMAN AND DIRECTOR

Mr. Michael John Hibberd ("Mr. Hibberd"), aged 60, has been a Non-Executive Vice-Chairman and a Non-Executive Director since June 28, 2015. He was Executive Vice-Chairman of the Corporation from November 28, 2014 to June 28, 2015. He was Executive Chairman from June 25, 2014 to November 28, 2014 and was Executive Co-Chairman of the Corporation from October 6, 2008 to June 25, 2014. Mr. Hibberd was a founder of the Corporation 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 of Heritage Oil Plc and Heritage Oil Corporation. He was also director of Challenger Energy Corp., Deer Creek Energy Limited, Iteration Energy Ltd., Zapata Energy Corporation, Sagres Energy Inc. 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.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS ("EDS")

Mr. Hong Luo ("Mr. Luo"), aged 53, became an Executive Director and Chief Executive Officer appointed by the Board on July 17, 2015. He was appointed as a Non-Executive Director of the Corporation from November 28, 2014 to July 17, 2015. Mr. Luo has 33 years' experience in the oil and gas industry. Previously he was Executive Vice President of Sinopec Canada Energy Ltd. from February 2012 to July 2015. Prior to joining Sinopec Canada Energy Ltd., 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.

Dr. Qi Jiang ("Dr. Jiang"), age 53, was appointed as a Non-Executive Director of the Corporation on December 15, 2014. Dr. Jiang was subsequently appointed by the Board as President and Chief Operating Officer on January 5, 2015 and was re-designated and appointed as an Executive Director on the same date. Dr. Jiang has 32 years of experience in the oil and gas industry, including over 26 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 Steam Assisted Gravity Drainage ("SAGD"). Prior to that, Dr. Jiang held technical and managerial positions with PetroChina Company Limited 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 SAGD and alternative technologies.

NON-EXECUTIVE DIRECTORS ("NEDS")

Mr. Hok Ming Tseung ("Mr. Tseung"), aged 54, 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 SEHK and Shenzhen Stock Exchange, respectively. Mr. Tseung obtained a postgraduate degree in international economics from the Chinese Academy of Social Sciences in 1998.

Mr. Jianzhong Chen ("Mr. Chen"), aged 47, is a Non-Executive Director appointed by the Board on October 22, 2015. He is a Deputy Chief Executive Officer of Bank of China Group Investment Limited ("BOCGI") and he currently supervises the Asset Management Division and NPA Investment Division businesses. Mr. Chen has served in this role since 2013. Prior to joining BOCGI, Mr. Chen held a number of positions in the Anhui Branch of Bank of China Limited ("Bank of China") ((a company listed on the Shanghai Stock Exchange and the SEHK) as well as the Human Resources Department at the Bank of China headquarters. Mr. Chen has over 25 years of experience in banking and finance. Mr. Chen holds a Master's degree in Engineering from the Beijing Institute of Technology.

Mr. Jin (Jimmy) Hu ("Mr. Hu"), aged 39, is a Non-Executive Director appointed by the Board on June 28, 2015. He was an Executive Director and Senior Vice President, Corporate Strategies from July 14, 2014 to June 28, 2015. He was a Non-Executive Director from June 27, 2014 to July 14, 2014. Mr. Hu is also a Vice President of Harbin Gloria Pharmaceuticals Co. and has been 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 in 1999, dual Master's degrees in Computer Information Systems and Accounting from Georgia State University in 2003 and a Master of Business Administration degree from Johnson Graduate School of Management in Cornell University in 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDS")

Mr. Raymond Shangti Fong ("Mr. Fong"), aged 69, is an Independent Non-Executive Director appointed on May 9, 2007. Mr. Fong has over 31 years of experience in the oil and gas industry. Mr. Fong is currently an Executive Director of Palinda International Group Limited. He held previous directorships with China Coal Corporation, Abenteuer Resources Ltd., Stealth Ventures Ltd., Zapata Capital Inc., was 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 ("Mr. Herdman"), aged 64, is an Independent Non-Executive Director appointed on July 18, 2011. Mr. Herdman has more than 39 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, Mr. Herdman retired from practice in 2010. He currently serves on the boards of directors of Blackline Safety 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 has served on a number of committees overseeing the practice of accounting in Alberta and as a director for a number of non-profit making organisations. Mr. Herdman graduated with a Bachelor of Education Degree from the University of Calgary in 1974.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Gerald F. Stevenson ("Mr. Stevenson"), aged 72, is an Independent Non-Executive Director appointed on July 15, 2011. Mr. Stevenson has over 37 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 Master 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 ("Mr. Song"), aged 46, is an Independent Non-Executive Director appointed by the Board on 27 June 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 ("Mr. Men"), age 51, was appointed as Chief Financial Officer of the Corporation on December 18, 2015. Mr. Men has been serving in the capacity of the Interim Chief Financial Officer of the Corporation since July 21, 2014. Prior to joining the Corporation, 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. which are both publicly traded. 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 CPA designation and is a member of Chartered Professional Accountants of Alberta with a public accountant designation.

Mr. Dong Liu ("Mr. Liu"), aged 47, 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 more than ten years of experience in investor relations, equity and capital markets, and merger and acquisition transactions.

The Board of Directors ("the Board") of the Corporation is pleased to present this Corporate Governance Report for the year ended December 31, 2015. 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 obligations under the Rules Governing the Listing of Securities on the SEHK (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 Chairman and consists of two Executive Directors and an Independent Non-Executive Director. See the corporate governance committee section below for further details on the reasons for deviation from the Code and the Corporation's plans for rectification.

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, 2015, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listing standards. The Corporation's current practices are reviewed and updated regularly to ensure 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 are 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. Kwok Ping Sun	Executive Director ("ED") and Executive Chairman
Mr. Hong Luo	Executive Director and Chief Executive Officer
Dr. Qi Jiang	Executive Director, President and Chief Operating Officer
Mr. Michael J. Hibberd	Non-Executive Director ("NED") and Non-Executive Vice-Chairman
Mr. Hok Ming Tseung	Non-Executive Director
Mr. Jianzhong Chen	Non-Executive Director
Mr. Jin (Jimmy) Hu	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. Final agendas and 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 has a formal and transparent procedure for the identification of nominees for Directors 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 24, 2015 with the exception of Mr. Jianzhong Chen, who was appointed as a director on October 22, 2015. 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.

Each director, including non-executive directors have a term of appointment which is from the time of election at the annual general meeting of shareholders to the following annual general meeting of shareholders; at which point the director must be re-elected.

Induction and Ongoing Development

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

COMMITTEES OF THE BOARD

The Board is responsible for leadership 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 authorities 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, 2015. The following is a summary of the work performed by the audit committee during 2015:

- reviewed the scope of the audit of the consolidated financial statements of the Corporation for the year ended December 31, 2015, as well as the fee proposal for such audits;
- reviewed the interim consolidated financial statements for the periods ended March 31, 2015, June 30, 2015 and September 30, 2015, respectively;
- reviewed the assessment of the design and testing of the effectiveness of the Corporation's internal control systems as performed by the external consultant;
- reviewed capital budgets as presented by senior management on a quarterly basis; and
- reported to the Board on the meetings of the audit committee.

During 2015, 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 authorities and duties of the committee, which have been revised from time to time since then. The corporate governance committee currently consists of four members, namely Mr. Kwok Ping Sun (Chairman of the corporate governance committee and ED), Mr. Michael J. Hibberd (NED), Mr. Hok Ming Tseung (NED), and Mr. Raymond S. Fong (INED). Mr. Haotian Li and Mr Tingan Liu ceased to be members of the corporate governance committee in 2015.

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 Executive Chairman and the Non-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, to review and monitor the Corporation's policies and practices on compliance with legal and regulatory requirements, to review and monitor the code of conduct and compliance manual applicable to employees and directors and to review the 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 comprise a majority of Independent Non-Executive Directors. The corporate governance committee is chaired by the Executive Chairman and is comprised of two Non-Executive Directors and an Independent Non-Executive Director. 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 move the composition of this committee toward a majority of Independent Non-Executive Directors 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 authorities and duties of the committee. The compensation committee currently consists of four members, namely Mr. Robert J. Herdman (Chairman of the compensation committee and INED), Mr. Kwok Ping Sun (ED), Mr. Raymond S. Fong (INED) and Mr. Zhefei (Bill) Song (INED). Mr. Jin (Jimmy) Hu ceased to be a member of the compensation committee in 2015. 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 determine the policy for the remuneration of the Executive Directors, to assess performance of the Executive Directors, to approve the terms of the Executive Directors' service contracts, 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 authorities 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).

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, 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 20 meetings of the Board held during the year ended December 31, 2015. 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. Kwok Ping Sun[1]	13/14	—	—	—	—
Mr. Michael J. Hibberd[2]	20/20	—	—	—	2/2
Mr. Jin (Jimmy) Hu[3]	7/20	—	—	—	—
Mr. Hok Ming Tseung	15/20	—	—	1/1	—
Mr. Tingan Liu[4]	6/8	—	—	—	2/2
Mr. Haotian Li[4]	5/17	—	—	—	1/2
Mr. Zhefei (Bill) Song	20/20	—	6/7	—	—
Mr. Robert J. Herdman	17/20	—	7/7	1/1	—
Mr. Gerald F. Stevenson	20/20	5/5	7/7	—	—
Mr. Raymond S. Fong	18/20	5/5	7/7	1/1	—
Dr. Qi Jiang[5]	20/20	5/5	—	—	—
Mr. Hong Luo[6]	20/20	—	—	—	—
Mr. Jianzhong Chen[7]	1/3	—	—	—	—

Notes:

1. Mr. Kwok Ping Sun was appointed Executive Chairman on June 28, 2015

2. Mr. Hibberd became Non-Executive Vice Chairman and a Non-Executive Director on June 28, 2015

3. Mr. Hu became a Non-Executive Director on June 28, 2015

4. Mr. Liu and Mr. Li resigned from the Board on June 24, 2015 and October 22, 2015, respectively

5. Dr. Jiang became an Executive Director, President and Chief Operating Officer on January 5, 2015

6. Mr. Luo became an Executive Director and the Chief Executive Officer on July 17, 2015

7. Mr. Jianzhong Chen was appointed a Non-Executive Director on October 22, 2015

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 2015, 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. All of our EDs, INEDs and remaining NEDs received Directors' fees and Board committee retainers in 2015.

Under our current compensation arrangements, each of our EDs, NEDs, INEDs and senior management receive compensation in the form 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 24, 2014, shareholders approved the option of paying 50% of the Directors' base retainer fees to Directors in Common 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 Common 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. The Director Share Compensation Arrangement expired on June 23, 2015 and was not renewed.

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 $3.1 million for the year ended December 31, 2015 (2014 - $3.3 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 interests of Directors' and Chief Executive Officer in the Corporation's Common Shares as at December 31, 2015 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, 2015 provided by Deloitte, the independent external auditors of the Corporation, were as follows:

Nature of services rendered	**Fees paid/ payable**
Audit fees	$246,590
Non-audit fees	$ 12,174
Total	$258,764

Audit fees were incurred in connection with the following services:

- Audit of the Corporation's annual financial statements;
- Audit of the financial statements of Sunshine Oilsands (Hong Kong) Ltd.;
- Reviews of the Corporation's interim financial statements;
- Additional audit procedures related to the 2014 audit; and
- Annual Canadian Public Accountability Board Assessment.

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

- Review of 2014 SR&ED claims and filing of SR&ED claim.

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, 2015, the Corporation reported a net loss of $406.1 million (2014 - $26.8 million). At December 31, 2015, the Corporation had a working capital deficiency of $286.1 million (2014 –working capital surplus of $138.2 million) and an accumulated deficit of $633.8 million (2014 - $227.7 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 refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such there is significant doubt and there can be no assurance the 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 consultant to complete testing of the design and effectiveness of its internal control system for the year ended December 31, 2015. 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, 2015. 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. Hong Luo, Executive Director and Chief Executive Officer, and Mr. Qiping Men, Chief Financial Officer; (ii) reviewed and discussed the scope and results of the annual audit with the Corporation's independent external auditors; and (iii) reviewed with management the results of the Corporation's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board is not aware of any material defects in the effectiveness of internal controls.

ANNUAL ASSESSMENT

A review of the effectiveness of the Corporation's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2015 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 its communications with shareholders and investors. The Corporation keeps a constant dialogue with the investment community through company visits, conference calls and information sessions to communicate the Corporation's business strategies, developments and goals.

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

The Corporation has not made any changes to its constitutional documents during the year ended December 31, 2015.

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 23, 2016 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 24, 2015 (Hong Kong time) at the United Conference Centre, Room 2, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong:

1. to receive and consider the audited financial statements of the Corporation as at and for the financial year ended December 31, 2014, 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, as more particularly described in the Corporation's information circular dated May 19, 2015 (the "Circular");

6. to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the refreshing of the one percent (1%) mandate under the Corporation's employee share savings plan, as more particularly described in the Circular;

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

8. 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 Common Shares not exceeding ten percent (10%) of its issued share capital, as more particularly described in the Circular; and

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

As at May 19, 2015, 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 Common Shares of the Corporation was 3,899,986,888. There were no restrictions on the holders of the Common 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. 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, 2015 together with comparative figures for the corresponding period in 2014.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review for the year and further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Corporation and its subsidiaries (the "Group") and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this Annual Report. The discussions in the Management Discussion and Analysis section form part of this Directors' Report.

PRINCIPAL SUBSIDIARIES

Particulars of the Corporation's wholly-owned subsidiaries as at December 31, 2015, are set out in note 1 to the consolidated financial statements. The activities of the wholly-owned subsidiaries of the Corporation as at December 31, 2015 are set out in the table below:

Name	Country of incorporation	Principal country of operation	Issued and fully paid share capital	Principal activities
Sunshine Oilsands (Hong Kong) Ltd.	Hong Kong, China	Hong Kong	HK$100	Management services
Boxian Investments Limited	British Virgin Islands	Hong Kong	US$1	Pursuing new investment opportunities

RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

The results of the Corporation for the financial year ending December 31, 2015 are set out in the consolidated statements of operations and comprehensive loss included in this Annual Report. The Board of Directors has not recommended, declared or paid any distributions for the financial year ending December 31, 2015.

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, 2015 are set out in note 8 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of movements in the Corporation's reserves during the year ended December 31, 2015 are set out in the consolidated statement of changes in shareholders' equity.

DISTRIBUTABLE RESERVES

As at December 31, 2015, reserves available for distribution to shareholders amounted to approximately $604.1 million as shown in the statutory accounts of the Corporation and calculated in accordance with the Corporation's articles of incorporation.

DIVIDENDS

The Corporation has not declared or paid any dividends in respect of the year ended December 31, 2015.

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, 2015 are set out in the consolidated statement of changes in shareholders' equity in this Annual Report.

DIRECTORS

As at December 31, 2015 and up to the date of this annual report, the composition of the Board of Directors was as follows:

Executive Directors

Mr. Kwok Ping Sun *(Chairman)*
Mr. Hong Luo
Dr. Qi Jiang

Non-Executive Directors

Mr. Michael J. Hibberd *(Vice-Chairman)*
Mr. Hok Ming Tseung
Mr. Jianzhong Chen
Mr. Jin (Jimmy) Hu

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".

On October 21, 2015, the Board of Directors accepted the resignation of Mr. Haotian Li as a non-executive, representative director of the Corporation. Mr. Li confirmed that he had no disagreement with the Board of Directors and that there were no matters that needed to be brought to the attention of shareholders of the Corporation in connection with his resignation.

On June 24, 2015, due to personal reasons and other professional commitments, Mr. Tingan Liu informed the Board of Directors that he would not stand for re-election as a director. As such, he retired as non-executive chairman and director of the Corporation at the conclusion of the annual general meeting in accordance with his term of office. Mr. Tingan Liu confirmed that he has no disagreement with the Board of Directors and there are no matters relating to his retirement as non-executive chairman and director that need to be brought to the attention of the shareholders of the Corporation.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of the 2015 interim report of the Corporation.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are to be proposed for re-election at the 2016 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 18 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 or a director of any entity connected with a Director has or had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Corporation and its subsidiaries for the year ended December 31, 2015.

INDEMNITY AND INSURANCE

Each of the directors of the Corporation has entered into an indemnity agreement with the Corporation. Pursuant to such indemnity agreements, among other things, the Corporation has agreed to indemnify such directors in connection with costs and expenses arising from claims relating to such director's service as a director of the Corporation or actions or omissions performed in such director's capacity as a director, provided that such director acted honestly and in good faith with a view to the best interests of the Corporation and, in the case of certain criminal or administrative actions, such director had reasonable grounds for believing that his conduct was lawful.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN COMMON SHARES AND SHARE OPTIONS

As at December 31, 2015, the interests and short positions of the Directors and the chief executive of the Corporation in the Common 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 SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Corporation under Section 352 of Part XV of the SFO or as otherwise notified to the Corporation and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Common Shares

Name	Company	Nature of Interest	Number of Common Shares held	Approximate % interest in the Common Shares
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd.	Direct/Indirect	769,259,500	18.18%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	101,474,685	2.40%
Dr. Qi Jiang	Sunshine Oilsands Ltd.	Direct	773,350	0.02%
Mr. Jin (Jimmy) Hu	Sunshine Oilsands Ltd.	Direct	43,478	0.00%
Mr. Hok Ming Tseung	Sunshine Oilsands Ltd.	Direct/Indirect	295,383,656	6.98%
Mr. Jianzhong Chen	Sunshine Oilsands Ltd.	N/A	—	0.00%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct/Indirect	9,250,621	0.22%
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/Indirect	831,900	0.02%
Mr. Hong Luo	Sunshine Oilsands Ltd.	N/A	—	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 Common Shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding Common Shares, less the maximum aggregate number of Common Shares underlying the options already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the Annual and Special Meeting of Shareholders on May 7, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan will have an exercise price that is determined by the Board of Directors but is not less than the higher of: the closing price on the Toronto Stock Exchange (the "TSX") or the SEHK (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date.

On September 30, 2015, the Corporation completed a voluntary delisting from the TSX. As a result the Board of Directors now determines the exercise price based solely on the trading data of the Common Shares of the Corporation from the SEHK only.

Details of the Post-IPO Stock Option Plan are listed below:

Purpose of the Post-IPO Stock Option Plan:	The purpose of the Post-IPO Stock Option Plan is to attract skilled and experienced personnel, to incentivise them to remain with the Corporation and to motivate them to strive for the future development and expansion of the Corporation by providing them with the opportunity to acquire equity interests in the Corporation.
Participants:	Any Directors, officers and employees of the Corporation, the Corporation's subsidiaries and any other persons selected by the Board in its discretion.
Total number of securities available for issue under the scheme	89,831,262 (representing 2.12% of the issued shares of the Corporation as at the date of the Annual Report)
Maximum entitlement of Participant:	The aggregate number of shares issued or to be issued to any one person under the Post-IPO Stock Option Plan at any time in any 12 month period (together with any shares underlying options granted (the "Options") during such period under any other share option scheme) must not exceed 1% of shares issued and outstanding at the time, unless shareholder approval has been sought and obtained in accordance with the provisions of the Post-IPO Stock Option Plan (and with the person receiving such Option grant abstaining from voting).
Period within which the shares must be taken up under an Option:	The Option period shall not expire later than 10 years from the date of grant.
Minimum period, if any, for which an Option must be held before it can be exercised:	The minimum period can be in a range from immediately upon grant to two years.
The amount payable, if any, on application or acceptance of the Option and the period within which payments or calls must be made or loans for such purposes must be paid:	Not applicable.
Remaining life of the Post-IPO Stock Option Plan:	The Post-IPO Stock Option Plan shall be valid and effective for the period commencing from January 26, 2012. There is currently no expiration date for the Post-IPO Stock Option Plan.

Details of the Options granted pursuant to the Post-IPO Stock Option Plan during the financial year ended December, 31 2015 are as follows:

Date of grant:	**January 23, 2015**	**May 20, 2015**
Exercise price of Options granted:	CDN$0.10 (HK$0.63 equivalent) per share	CDN$0.14 (HK$0.89 equivalent) per share
Number of Options granted:	3,758,425 (representing 0.09% of the issued shares of the Corporation as at the date of the Annual Report).	5,306,962 (representing 0.13% of the issued shares of the Corporation as at the date of the Annual Report).
Validity period of the Options:	Five (5) years	Five (5) years

The accounting policy adopted for the granted Options above follows the policy adopted under the Post-IPO Stock Option Plan for calculating the exercise price.

As of December 31, 2015, the options held by Directors and the chief executive of the Corporation was as follows:

Stock options

Name	Company	Nature of Interest	Number of stock options held	Approximate % interest in the Options
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd.	N/A	—	0.00%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct	11,760,000	12.31%
Dr. Qi Jiang	Sunshine Oilsands Ltd.	Direct	10,000,000	10.47%
Mr. Jin (Jimmy) Hu	Sunshine Oilsands Ltd.	N/A	—	0.00%
Mr. Hok Ming Tseung	Sunshine Oilsands Ltd.	Direct	510,000	0.53%
Mr. Jianzhong Chen	Sunshine Oilsands Ltd.	N/A	—	0.00%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct	510,000	0.53%
Mr. Robert Herdman	Sunshine Oilsands Ltd.	Direct	1,510,000	1.58%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	Direct	1,510,000	1.58%
Mr. Zhefei (Bill) Song	Sunshine Oilsands Ltd.	N/A	—	0.00%
Mr. Hong Luo	Sunshine Oilsands Ltd.	Direct	3,000,000	3.14%

Save as disclosed above, as at December 31, 2015, none of the Directors or the chief executive of the Corporation have or are deemed to have interests or short positions in the Common 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 SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Corporation under Section 352 of Part XV of the SFO, or as otherwise notifiable to the Corporation and the SEHK 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 2015.

Movements in Stock options

Name	Outstanding, beginning of year	Granted	Exercised	Forfeited	Expired	Outstanding end of year
Mr. Kwok Ping Sun	—	—	—	—	—	—
Mr. Michael Hibberd	14,160,000	—	—	—	(2,400,000)	11,760,000
Dr. Qi Jiang	10,000,000	—	—	—	—	10,000,000
Mr. Jin (Jimmy) Hu	—	—	—	—	—	—
Mr. Hok Ming Tseung	1,510,000	—	—	—	(1,000,000)	510,000
Mr. Jianzhong Chen	—	—	—	—	—	—
Mr. Raymond Fong	910,000	—	—	—	(400,000)	510,000
Mr. Robert Herdman	1,510,000	—	—	—	—	1,510,000
Mr. Gerald Stevenson	1,510,000	—	—	—	—	1,510,000
Mr. Zhefei (Bill) Song	—	—	—	—	—	—
Mr. Hong Luo	3,000,000	—	—	—	—	3,000,000
Mr. Haotian Li	1,510,000	—	—	(1,510,000)	—	—
Sub-total for Directors	34,110,000	—	—	(1,510,000)	(3,800,000)	28,800,000
Executive Management	6,353,292	—	—	—	(300,000)	6,053,292
Sub-total for other share option holders	95,263,997	9,065,387	(1,075,166)	(18,611,953)	(23,940,771)	60,701,494
Total	135,727,289	9,065,387	(1,075,166)	(20,121,953)	(28,040,771)	95,554,786

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 Common Shares of the Corporation or its associated corporations as at December 31, 2015. 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, 2015.

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

As at December 31, 2015, 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 Common 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(1)
China Life Insurance (Overseas) Co., Ltd.	Beneficial	314,822,600	7.44%
Sinopec Century Bright Capital Investment Limited	Beneficial	239,197,500	5.65%

Note:

1. All positions are long positions.

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".

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2015, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Corporation or its subsidiaries.

PENSION SCHEMES

The Corporation does not have a pension scheme.

LOAN

As at December 31, 2015, the Corporation had senior secured notes that are considered current as the conditions to extend the maturity date to August 1, 2017 were not met by February 1, 2016. Details of the classification of the notes as current are set out in Note 10 of the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Protection and preservation of the environment is a fundamental operating principle of the Corporation. Its projects and operations adhere strictly to established Standard Operating Procedures and Practices (SOPs) for all situations and conditions which exist. Ongoing environmental monitoring, assessments, and audits ensure the Corporation's objectives are met with respect to environmental stewardship.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATION

For the year ended December 31, 2015, the Corporation was not aware of any non-compliance with any relevant laws and regulations that have a significant impact on it. The Corporation's operations have met regulatory requirements and corporate standards.

RELATIONSHIPS WITH STAKEHOLDERS

The Corporation has actively cultivated, established, and maintained positive relationships with First Nations and Metis peoples in the region who are proximate to or interested in its projects. The Corporation provides project updates and meets with the various aboriginal communities on a regular basis to discuss impacts of its operations and pro-actively deal with any issues. The Corporation also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Corporation's alignment with their rules, regulations, and expectations.

MAJOR CUSTOMERS AND SUPPLIERS

Customers

The Corporation did not have any sales income or customers for the year ended December 31, 2015.

Suppliers

The largest supplier accounted for 11% of the Corporation's purchases. The five largest suppliers accounted for 42% of the Corporation's purchases for the year ended December 31, 2015.

To the knowledge of the Directors, none of the Directors, their close associates, or any shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Corporation) had a beneficial interest in the Corporation's five largest suppliers.

CONNECTED TRANSACTIONS

On May 31, 2015, the Corporation entered into subscription agreements (the "Subscription Agreements") with certain subscribers (the "Subscribers"), including, among others, (i) Prime Union Enterprises Limited, a company directly wholly owned by Mr. Kwok Ping Sun (an Executive Chairman and Executive Director and a substantial shareholder of the Corporation beneficially interested in approximately 13.03% of the Corporation's issued Common Shares as at May 31, 2015 (Hong Kong); (ii) Mr. Michael John Hibberd (a Non-Executive Vice-Chairman and a Non-Executive Director); (iii) Dr. Qi Jiang (an Executive Director and the President and Chief Operating Officer of the Corporation); (iv) Mr. Raymond Shenti Fong (an Independent Non-Executive Director); and (v) Mr. Zhefei Song (an Independent Non-Executive Director).

Pursuant to the Subscription Agreements, the Subscribers agreed to subscribe for an aggregate of 524,734,210 new Class "A" common voting shares in the issued share capital of the Corporation (the "Subscription Shares") at the subscription price of HK$0.75 (approximately CDN$0.12) per Subscription Share for an aggregate cash consideration of HK$393,550,657.50. The Corporation intended to apply the net proceeds from the subscriptions of the Subscription Shares (i) for general working capital of the Corporation and its subsidiaries and (ii) as funds for future development of the existing business of the Corporation and its subsidiaries, including funding the development and operation costs of the West Ells project.

Please refer to the section headed "Messages to Shareholders" and the heading entitled "Purchase, Sale or Redemption of Sunshine's Listed Securities" in the Management Discussion and Analysis section of this report and the announcement of the Corporation dated June 1, 2015 (Hong Kong) for further details.

Save as disclosed above, for the year ended 31 December 2015, the Group has not entered into any connected transactions (as defined under the Listing Rules).

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 18 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

"Kwok Ping Sun"

Chairman of the Board

March 29, 2016

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three months and year ended December 31, 2015 is dated March 29, 2016. 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, 2015. 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 1.4 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2015 was approximately 2.5 billion barrels, which was unchanged from the December 31, 2014 resource evaluation. The Company also has 422 million barrels of proved plus probable ("2P") reserves and 602 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2015. The Company did not conduct an evaluation of its Carbonate assets given the current commodity price and the introduction of risk factors to the contingent resources, which would deem the Carbonates to be uneconomic. With more than 1 million acres of oil sands and P&NG leases, the Company has significant commercial development potential. Phase 1 (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is on production and is ramping up to meet the designed plant capacity. 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 166 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") after completion of Phase 1 and Phase 2. Phase 1 is designed for 5,000 barrels per day while Phase 2 will add an additional 5,000 barrels per day.

As at December 31, 2015, the Company had invested approximately $1.2 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at December 31, 2015, the Company had $6.5 million in cash and $14.4 million in restricted cash.

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company's shares continue to be listed for trading on the Stock Exchange of Hong Kong Limited ("SEHK").

OPERATIONAL UPDATE

West Ells

For the year ended December 31, 2015, the Corporation achieved progress in the following areas:

- Completed West Ells Phase I construction activities on site;
- Substantially commissioned systems for the West Ells central processing plant and well pad;
- Completed all down hole equipment, installation and surface tie ins for eight West Ells well pairs;
- Successful start-up and operation of West Ells surface facilities in the central processing plant and well pad;
- Achieved first steam injection in two well pairs on September 22, 2015; achieved first oil production on December 7, 2015; and
- Demonstrated expected reservoir response to injection and production operations.

The Company currently expects to continue operation of the plant at a loss during the current challenging oil price environment to prove the reservoir performance.

Thickwood and Legend

The Thickwood and Legend projects are each planned for first phase delivery of 10,000 barrels per day of production. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2016. Once the Thickwood and Legend projects are sanctioned for development and construction, additional financing will need to be secured to proceed.

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

A thermal single well pilot project application was submitted in July, 2014, and approved on January 26, 2015. During the final quarter of 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. The MD&A also includes disclosure required under the Hong Kong Listing Rules, such as debt to asset ratio. 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 used in 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 used in 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 (deficiency).

Operational and Financial Highlights

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

	For the three months ended December 31,		**For the year ended December 31,**		
Financial Highlights	**2015**	2014	**2015**	2014	2013
Other income	**$ 155**	$ 5,464	**$ 1,024**	$ 22,255	$ 2,219
Finance costs	**17,857**	8,735	**47,543**	15,916	4,775
Net loss	**325,761**	12,280	**406,135**	26,767	32,780
Basic and diluted loss per share	**0.08**	0.00	**0.10**	0.01	0.01
Payments for exploration and evaluation assets	**144**	1,433	**1,375**	5,232	12,745
Payments for property, plant and equipment	**18,907**	26,077	**144,216**	140,978	270,508

For the three months and year ended December 31, 2015, the Company had a net loss of $325.8 million and $406.1 million compared to $12.3 million and $26.8 million in 2014, respectively. The net loss for the three months and year ended December 31, 2015 was affected by a foreign exchange loss of $8.0 million and $36.3 million, finance costs of $17.9 million and $47.5 million, general administration costs of $4.6 million and $19.5 million, share-based compensation of $0.3 million and $1.6 million, contract provision expense of $Nil and $6.6 million and depreciation and impairment expense of $295.2 million and $295.6 million, offset by a gain of $0.1 million and $0.4 million on the fair value adjustment on share purchase warrants and interest income of $Nil and $0.5 million. For the three months and year ended December 31, 2014, the net loss was attributed to a foreign exchange loss of $5.1 million and $9.2 million, finance costs of $8.7 million and $15.9 million, general administration costs of $3.5 and $15.9 million, share-based compensation of $0.7 million and $2.5 million, and $(0.4) million and $4.8 million of suspension costs, depreciation of $0.2 million and $0.7 million, offset by a gain of $5.0 million and $8.2 million on the fair value adjustment on share purchase warrants, $Nil and $13.3 million on the sale of assets and interest income of $0.4 million and $0.8 million.

	2015	2014	2013
Cash and cash equivalents	**$ 6,545**	$ 136,097	$ 15,854
Current restricted cash and cash equivalents	**14,389**	23,467	—
Non-current restricted cash and cash equivalents	—	11,601	—
Working capital (deficiency)/surplus	**(286,121)**	138,249	(103,182)
Total assets	**973,181**	1,260,060	1,029,388
Total liabilities	**369,083**	288,044	148,415

At December 31, 2015, the Company had a cash balance of $20.9 million, including restricted cash, compared to $171.2 million at December 31, 2014. The decrease of $129.6 million in the cash balance (excluding restricted cash) can be primarily attributed to payments of $144.2 million for property, plant and equipment, payments of $1.4 million for exploration and evaluation assets, $18.3 million used in corporate operating activities and $30.3 million for finance costs. These amounts were offset by a gain of $7.5 million on unrealized foreign exchange on cash held in foreign currencies, $35.8 million in proceeds net of $0.2 million in costs from the issuance of common shares, proceeds on the sale of assets of $0.5 million and interest received of $0.5 million, combined with the release of $20.7 million in restricted cash to fund long-term debt interest payments.

At December 31, 2015, the Company's working capital deficiency was $286.1 million including the $266.3 million current portion of senior secured notes (the "Notes"), compared to a $138.2 million working capital surplus at December 31, 2014. The Notes had a potential maturity date of August 1, 2017, if certain conditions are met.

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, 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 did not meet the requirements listed above by February 1, 2016, and as a result the final maturity date of the Notes will be August 1, 2016. The Company has presented the Notes as a current liability on the Consolidated Statements of Financial Position as at December 31, 2015.

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. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At December 31, 2015, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 102.256% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is $6.2 million.

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

	For the three months ended December 31,		For the year ended December 31,	
	2015	2014	**2015**	2014
Net loss	**$ (325,761)**	$ (12,280)	**$ (406,135)**	$ (26,767)
Finance costs	**17,857**	8,735	**47,543**	15,916
Unrealized foreign exchange loss	**7,933**	5,034	**34,474**	8,972
Contract provision expense	**36**	—	**6,636**	—
Interest income	**(25)**	(442)	**(471)**	(789)
Gain on sale of assets	—	—	**(174)**	(13,265)
Fair value adjustment on share purchase warrants gain	**(130)**	(5,022)	**(379)**	(8,201)
Depreciation and impairment	**295,159**	158	**295,593**	698
Share-based compensation	**287**	710	**1,563**	2,531
Employee share savings plan	—	121	**356**	419
Cash flow used in operations	**$ (4,644)**	$ (2,986)	**$ (20,994)**	$ (20,486)

Non-IFRS measurements are 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 above table reconciles the non-IFRS measurements "Cash flow used in operations" from "Net loss", the nearest IFRS measure. Cash flow used in operations is defined as net loss as reported, add back or deduct non-cash items including finance costs, share-based compensation, unrealized portion of foreign exchange adjustments, depreciation and impairment, interest income, fair value adjustment on share purchase warrants and employee share savings plan. Cash flow used in operations reconciles to "Net cash used in operating activities" from the Consolidated Statements of Cash Flows after taking into account movements in non-cash working capital.

Cash flow used in operations in the three months and year ended December 31, 2015 totalled $4.6 million and $21.0 million compared to $3.0 million and $20.5 million for the same period in 2014. For the three month period ended December 31, 2015, the increase in cash flow used in operations of $1.7 million compared to the same period in 2014 is primarily due to an increase of $0.8 million in salaries, consulting and benefits, a $0.5 million increase in other general and administrative costs and an increase of $0.4 million in suspension costs related to the West Ells project. For the year ended December 31, 2015, the increase in cash flow used in operations of $0.5 million is primarily due to an increase in salaries, consulting and benefits of $3.5 million, $1.6 million in realized foreign exchange losses, and an increase in other general and administrative costs of $0.2 million, offset by no suspension costs in 2015. Suspension costs related to the West Ells project for the year ended December 31, 2014, were $4.8 million. After construction on the West Ells project recommenced in the third quarter of 2014, staff levels increased and suspension costs decreased as the suspension ended. In an effort to reduce general and administrative costs, staff reductions occurred in Q3, 2015, which resulted in a temporary increase to salaries in the short term due to severance payments.

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 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Other income	155	1,023	(840)	686	5,464	10,143	2,864	3,784
Finance costs	17,857	10,641	9,891	9,154	8,735	2,031	3,279	1,871
Net loss for the period	325,761	30,413	19,122	30,839	12,280	1,338	8,897	4,253
Loss per share	0.08	0.01	0.00	0.01	0.00	0.00	0.00	0.00
Capital investments	19,051	31,100	51,422	44,018	27,510	31,987	54,509	32,204

RESULTS OF OPERATIONS

Finance Costs

	For the three months ended December 31,		For the year ended December 31,	
	2015	2014	**2015**	2014
Interest expense on senior secured notes	**$ 7,131**	$ 5,678	**$ 26,030**	$ 8,909
Amortization of financing transaction costs and discount	**4,261**	2,611	**14,267**	4,259
Redemption/yield maintenance premium	**6,245**	—	**6,245**	—
Financing related costs	**243**	—	**232**	1,720
Other interest expense	**(287)**	245	**(286)**	267
Unwinding of discounts on provisions	**264**	201	**1,055**	761
	$ 17,857	$ 8,735	**$ 47,543**	$ 15,916

For the three month period ended December 31, 2015, finance costs increased by $9.1 million primarily as a result of an increase of $1.4 million of interest expense on the US $200 million Notes, $1.7 million attributed to the amortization of financing transaction costs on the Notes, $6.2 million increase in premium due to the Notes requiring a premium payment upon redemption after August 31, 2015, $0.2 million in other financing related costs, and $0.1 million on unwinding of discounts on provisions, offset by an increase of $0.5 million in other interest expense recoveries related to a reduction in interest due on vendor accounts, compared to the same period in 2014. Finance costs for the year ended December 31, 2015 increased by $31.6 million primarily as a result of an increase of $17.1 million of interest expense on the Notes (as they were only outstanding for a portion of 2014 as opposed to the full year ended 2015), $10 million attributed to the amortization of financing transaction costs on the Notes, $6.2 million increase in redemption premium due to the Notes requiring a premium payment upon redemption after August 31, 2015, $0.3 million on unwinding of discounts on provisions, offset by a $1.5 million decrease in other financing related costs associated with the prior year's strategic planning and initiatives and a $0.5 million decrease in other interest costs related solely to a reduction in interest due on vendor accounts, compared to the same period in 2014.

GENERAL AND ADMINISTRATIVE COSTS

	For the three months ended December 31,					
	2015			2014		
	Total	**Capitalized**	**Expensed**	Total	Capitalized	Expensed
Salaries, consulting and benefits	**$ 3,570**	**889**	**2,681**	$ 3,212	1,161	2,051
Rent	**531**	**194**	**337**	574	252	322
Legal and audit	**139**	—	**139**	405	—	405
Other	**1,459**	**38**	**1,421**	761	58	703
	$ 5,699	**1,121**	**4,578**	$ 4,952	1,471	3,481

	For the year ended December 31,					
	2015			2014		
	Total	**Capitalized**	**Expensed**	Total	Capitalized	Expensed
Salaries, consulting and benefits	**$ 15,751**	**5,005**	**10,746**	$ 13,349	5,997	7,352
Rent	**2,300**	**891**	**1,409**	2,309	1,054	1,255
Legal and audit	**1,891**	—	**1,891**	2,648	—	2,648
Other	**5,615**	**143**	**5,472**	4,882	211	4,671
	$ 25,557	**6,039**	**19,518**	$ 23,188	7,262	15,926

General and administrative expenses, which include salaries, consulting and benefits, rent, and other general and administrative costs, for the three month period ended December 31, 2015 increased by $1.1 million to $4.6 million compared to $3.5 million for the same period in 2014. The increase is primarily the result of an increase in salaries, which includes severance, consulting and benefits of $0.7 million, an increase in other costs $0.7 million, offset by a reduction in legal and audit costs of $0.3 million. For the year ended December 31, 2015, general and administrative expenses increased by $3.6 million to $19.5 million compared to $15.9 million for the same period in 2014. The increase is primarily a result of an increase in salaries, consulting and benefits of $3.4 million, an increase in rent of $0.2 million and increases in other costs of $0.8 million, offset by a reduction in legal and audit costs of $0.8 million. During the three months and year ended December 31, 2015, the Company capitalized salaries, consulting and benefits, rent and other general and administrative costs related to capital investment of $1.1 million and $6.0 million compared to $1.5 million and $7.3 million for the same period in 2014, respectively.

CONTRACT PROVISION

At June 30, 2015, the Company recognized a full liability provision related to obligations under a drilling rig contract of $6.6 million (December 31, 2014 - $ Nil). The $6.6 million provision represents the maximum obligation required if the drilling rig is not utilized over the remaining term of the contract, which ends in the fourth quarter of 2016. At December 31, 2015, this obligation is broken into a $3.1 million payable and additional $3.5 million provision. Based on current market conditions and low utilization rates for drilling rigs, management concluded the future benefits of the contract are not currently quantifiable to offset its obligations under the contract. In future periods if the drilling rig is utilized the provision will be adjusted accordingly.

SHARE-BASED COMPENSATION

	For the three months ended December 31,					
	2015			2014		
	Total amount	**Capitalized portion**	**Expensed**	Total amount	Capitalized portion	Expensed
Share-based compensation	**370**	**82**	**288**	1,015	305	710

	For the year ended December 31,					
	2015			2014		
	Total amount	**Capitalized portion**	**Expensed**	Total amount	Capitalized portion	Expensed
Share-based compensation	**2,307**	**744**	**1,563**	3,472	941	2,531

Share-based compensation expense for the three months and year ended December 31, 2015 was $0.3 million and $1.6 million compared to $0.7 million and $2.5 million for the same period in 2014, respectively. The fair value of share-based compensation 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 share-based compensation using the same methodology associated with capitalized salaries and benefits. For the three months and year ended December 31, 2015, the Company capitalized $0.1 million and $0.7 million, compared to $0.3 million and $0.9 million of share-based compensation for the same period in 2014.

OTHER INCOME

	For the three months ended December 31,		For the year ended December 31,	
	2015	2014	**2015**	2014
Interest income	**$ 25**	$ 442	**$ 471**	$ 789
Gain on sale of assets	—	—	**174**	13,265
Fair value adjustment on share purchase warrants	**130**	5,022	**379**	8,201
	$ 155	$ 5,464	**$ 1,024**	$ 22,255

Other income for the three months ended December 31, 2015 decreased by $5.3 million to $0.2 million from $5.5 million in 2014. The change was due to a decrease in interest income of $0.4 million and a decrease in the fair value gain on share purchase warrants of $4.9 million. Other income for the year ended December 31, 2015 decreased by $21.3 million to $1.0 million from $22.3 million in 2014. The change was due to a decrease in interest income of $0.3 million, a decrease in the fair value gain on share purchase warrants of $7.8 million and a decrease in the gain on sale of assets of $13.1 million. The change in the fair value gain on share purchase warrants for the three months and year ended December 31, 2015 versus the same periods in 2014 are due to the decrease in the Company's stock price and a reduction in time to expiry since the warrants were issued.

DEPRECIATION AND IMPAIRMENT

Depreciation and impairment expense was $295.2 million for each of the three month periods ended December 31, 2015 and 2014. For the year ended December 31, 2015, depreciation and impairment expense was $295.6 million compared to $0.7 million for the same period in 2014. Since the Company is currently a development stage company, its oil assets are not yet ready for use and therefore, not subject to depletion and depreciation.

Exploration & Evaluation ("E&E") Asset Impairment

As at December 31, 2015, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates 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; and (iv) the discount rate and risk factors to be applied to such revenues and costs for the purposes of deriving a recoverable value.

Reserve and resource values were based on the Company's December 31, 2015 reserve report as prepared by its independent reserve engineer GLJ Petroleum Consultants (GLJ). The recoverable amount of the E&E Assets was estimated based on proved plus probable reserves plus risked best estimate contingent resources using a pre-tax discount rate of 12 percent with a further discount factor of 62.5 percent applied to best estimate contingent resources.

For the year ended December 31, 2015, the Company recognized an impairment of $90 million (December 31, 2014 - $Nil) on its E&E Assets where the carrying value exceeded the estimated recoverable amount. The impairment was recorded in depreciation and impairment in the Consolidated Statements of Operations and Comprehensive Loss. The impairment recorded at December 31, 2015 may be reversed in the future if there has been a change in the estimates used to determine the recoverable amount.

Property, Plant & Equipment ("PP&E") Asset Impairment

As at December 31, 2015 the Company reviewed the West Ells CGU for circumstances that indicated the asset may be impaired due to a significant and sustained decline in forward commodity benchmark prices, compared to those at December 31, 2014, resulting in an impairment of $205 million (December 31, 2014 - $Nil).

The recoverable amount of the West Ells CGU as at December 31, 2015 was determined using value-in-use, with the assumptions that follow. Reserve and resource values were based on the Company's December 31, 2015 reserve report as prepared by its independent reserve engineer GLJ Petroleum Consultants (GLJ). In assessing value-in-use the recoverable amount of the West Ells CGU was estimated based on proved plus probable reserves plus risked best estimate contingent resources using a pre-tax discount rate specific to the underlying composition of the reserve and resource categories and risk profile of West Ells. The discount rate used was 12 percent with a further discount factor of 25.0 percent applied to best estimate contingent resources. Key input estimates used in the determination of cash flows from West Ells reserves and resources included: quantities of reserves and resources and future production; forward commodity pricing as prepared by GLJ; development, operating and abandonment costs; royalty obligations and discount and risk rates.

The value-in-use used to determine the recoverable amounts of the impaired PP&E assets are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data.

The results of the Company's impairment assessment on West Ells are sensitive to changes in any of the key input estimates of which changes could decrease or increase the recoverable amount of the asset and result in additional impairment charges or recovery of those impairments. If a pre-tax discount rate of 10 percent had been used in all reserve and resource categories in the determination of the West Ells recoverable amount, the impairment charge would have been $Nil. If a pre-tax discount rate of 15 percent had been used on all reserve and resource categories in the determination of the West Ells recoverable amount, the Company would have recorded an additional impairment charge of $371 million.

Assuming a pre-tax discount rate of 12 percent had been used in all reserve and resource categories with a 5 percent increase in the forecast benchmark WTI price (in the determination of the West Ells recoverable amount), the impairment charge would have been $Nil. With a 5 percent decrease in the forecast benchmark WTI price (in the determination of the West Ells recoverable amount), the Company would have recorded an additional impairment charge of $139 million.

The impairment was recorded in depreciation and impairment in the Consolidated Statements of Operations and Comprehensive Loss. The impairment recorded at December 31, 2015 may be reversed in the future if there has been a change in the estimates used to determine the recoverable amount.

The following table was used in the December 31, 2015 impairment testing and summarizes the price forecast used in the Company's discounted cash flow estimates. The table is the GLJ Petroleum Consultants' pricing forecast effective January 1, 2016.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @ Cushing $US/bbl	WCS@ Hardisty $/bbl	Heavy Oil 12 API @ Hardisty $/bbl	AECO Spot ($/MMbtu)
2016	2	0.725	44.00	42.26	35.70	2.76
2017	2	0.750	52.00	51.20	45.02	3.27
2018	2	0.775	58.00	55.39	49.06	3.45
2019	2	0.800	64.00	60.84	54.42	3.63
2020	2	0.825	70.00	66.18	59.75	3.81
2021	2	0.850	75.00	70.00	63.56	3.90
2022	2	0.850	80.00	75.88	69.32	4.10
2023	2	0.850	85.00	81.41	74.62	4.30
2024	2	0.850	87.88	84.90	78.40	4.50
2025	2	0.850	89.63	86.60	79.99	4.60
2026+	escalate oil, gas and product prices at 2% per year thereafter					

INCOME TAXES

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three months and year ended December 31, 2015 and 2014. 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, 2015, the Company had total available tax deductions of approximately $1.3 billion, with unrecognized tax losses that expire between 2028 and 2035.

LIQUIDITY AND CAPITAL RESOURCES

	2015	2014
Working capital deficit (surplus)[1]	**$ 286,121**	$ (138,249)
Senior secured notes[2]	—	210,050
Shareholders' equity	**604,098**	972,016
	$ 890,219	$ 1,043,817

1. Included in working capital deficit/(surplus) at December 31, 2015, is restricted cash of $14.4 million (December 31, 2014, $23.5 million). Refer to Note 4 "cash and cash equivalents" in the consolidated financial statements for additional disclosure on restricted cash.

2. Senior secured notes are considered current as at December 31, 2015 and have been included in the working capital deficit as the conditions to extend the maturity date to August 1, 2017 were not met by February 1, 2016.

On August 8, 2014, the Company completed an offering of US$200 million 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 potential maturity date of August 1, 2017, if certain conditions are met.

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, 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 did not meet the requirements listed above by February 1, 2016, and as a result the final maturity date of the Notes will be August 1, 2016. The Company has presented the Notes as a current liability on the Consolidated Statements of Financial Position as at December 31, 2015.

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. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At December 31, 2015, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 102.256% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is $6.2 million.

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, 2015, was 16.9% which includes interest and amortization of the applicable financing costs and discount.

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, 2015.

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 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 under Canadian Securities Legislation and includes timely reporting of material changes. The Company is in material compliance with all covenants under the Notes as at December 31, 2015.

As at December 31, 2015, US$10.4 million of proceeds from the Notes are held in a separate escrow account with a trustee. These funds are restricted to cover the third interest payment due on February 1, 2016. Interest payments are payable semi-annually on February 1 and August 1 of each year. The Company paid the required interest on the Notes on February 1, 2016.

The Company had a one year Irrevocable Standby Letter of Credit ("Letter") of $1.6 million issued on July 31, 2015. The Letter is due to mature on July 31, 2016. The Letter is due to mature on July 31, 2016 and is secured by a deposit held with a financial institution. The Company agreed with the vendor to draw on the Letter in order to settle past due amounts. Total amounts drawn in 2016 totalled $0.8 million.

Working capital deficiency as at December 31, 2015 of $286.1 million is comprised of $20.9 million of cash, including restricted cash, offset by the current portion of long term debt of $266.3 million and other net current liabilities of $40.7 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 (deficiency) levels. The Company's liquidity may be adversely affected if the Company's access to the capital markets is hindered, as a result of financial market conditions generally or as a result of conditions specific to the Company.

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 refinance current debt and 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.

For the three months and year ended December 31, 2015, the Company reported a net loss of $325.8 million and $406.1 million, respectively. At December 31, 2015, the Company had a working capital deficiency of $286.1 million including the current portion of long term debt of $266.3 million and an accumulated deficit of $633.8 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 38% as at December 31, 2015, compared to 23% as at December 31, 2014.

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 is denominated in US dollars.

For the three months and year ended December 31, 2015, the Company had a foreign exchange loss of $8.0 million and $36.3 million compared to a $5.1 million and $9.2 million loss in the same period in 2014. The change in foreign exchange for the three month period ended December 31, 2015, was primarily due to an $8.3 million unrealized loss on translation of the US denominated Notes combined with a realized loss of $0.6 million offset by a $0.4 million unrealized gain on US and HKD denominated cash balances. The increase in foreign exchange loss for the year ended December 31, 2015, was primarily due to a $42.0 million unrealized loss on translation of the US denominated Notes combined with a realized loss of $1.8 million offset by a $7.5 million unrealized gain on US and HKD denominated cash balances.

The Company manages foreign exchange 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 three months and year ended December 31, 2015. 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, 2015 would have been impacted by approximately $0.2 million. At December 31, 2015, the Company held approximately US$10.4 million of restricted cash and US$2.1 million of cash or $14.4 million of restricted cash and $2.8 million of cash respectively, using the December 31, 2015 exchange rate of 1.3840 as cash in the Company's US bank account.

The Company also owes US$200.0 million or $276.8 million in Notes using the exchange rate of 1.3840 at December 31, 2015. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, the carrying value of the current portion of the long term debt at December 31, 2015, would have been impacted by approximately $2.8 million.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2015 would have been impacted by $Nil. At December 31, 2015, the Company held approximately HKD$12.6 million or $2.3 million using the December 31, 2015 exchange rate of 5.6003, as cash, restricted cash and cash equivalents in the Company's HKD bank account.

The Company's $6.5 million in unrestricted cash as at December 31, 2015, 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 for general corporate matters. 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 law partnership fail or are subject to other adverse conditions in the financial markets. The Company had $14.4 million in restricted cash as at December 31, 2015, held in one treasury note. The Company also had $5.1 million classified as a deposit, with the Alberta Energy Regulator for the Licensee Liability Rating Program.

CASH FLOWS SUMMARY

	For the three months ended December 31,		**For the year ended December 31,**	
	2015	2014	**2015**	2014
Cash used in operating activities	**$ (1,928)**	$ (2,062)	**$ (18,280)**	$ (31,846)
Cash used in investing activities	**(19,490)**	(26,934)	**(124,441)**	(180,489)
Cash generated by financing activities	**5,723**	97	**5,663**	329,876
Effect of exchange rate changes on cash held in foreign currency	**370**	918	**7,506**	2,702
Net (decrease)/increase in cash	**(15,325)**	(27,981)	**(129,552)**	120,243
Cash, beginning of period	**21,870**	164,078	**136,097**	15,854
Cash, end of period	**$ 6,545**	$ 136,097	**$ 6,545**	$ 136,097

OPERATING ACTIVITIES

Net cash used for operating activities for the three months and year ended December 31, 2015 was $1.9 million and $18.3 million compared to cash used of $2.1 million and $31.8 million in 2014, a decrease of $0.2 million and a decrease of $13.5 million, respectively. Net cash used for operating activities includes movement in working capital (deficiency) of $(2.7) million for the three months and year ended December 31, 2015 compared to movement of $(0.9) million and $11.4 million for the same periods in 2014, respectively.

INVESTING ACTIVITIES

Net cash used for investing activities for the three months ended December 31, 2015 decreased by $7.4 million to $19.5 million compared to $26.9 million for the three month period ended December 31, 2014. The decrease was primarily due to a reduction in payments for property, plant and equipment of $7.2 million, and exploration and evaluation assets of $1.3 million, offset by an increase in restricted cash of $0.6 million and a decrease in interest received of $0.5 million. For the year ended December 31, 2015 net cash used for investing activities decreased by $56.1 million to $124.4 million compared to $180.5 million for the year ended December 31, 2014. The decrease was primarily due to the release of restricted cash of $55.7 million to fund long-term debt interest payments combined with a reduction in payments for exploration and evaluation assets of $3.9 million, offset by an increase in payments for property, plant and equipment of $3.2 million related to the West Ells project and a reduction in interest received of $0.3 million.

FINANCING ACTIVITIES

Net cash generated from financing activities for the three month period ended December 31, 2015 totalled $5.7 million, which consisted of proceeds from the issue of common shares of $12.6 million less share issue and finance costs of $6.9 million. Financing activities for the year ended December 31, 2015 generated $5.7 million, which consisted of proceeds from the issue of common shares of $35.7 million less payment for share issue costs of $0.2 million, combined with proceeds from the sale of assets of $0.5 million, offset by payment for finance costs, largely related to the Notes interest, amortization and redemption premium costs of $30.3 million. 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 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.

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, 2015, the Company's estimated commitments are as follows:

	Total	2016	2017	2018	2019	Thereafter
Repayment of long-term debt[1]	$ 276,800	$ 276,800	$ —	$ —	$ —	$ —
Interest payments on long-term debt[2]	27,680	27,680	—	—	—	—
Yield maintenance premium[3]	20,201	20,201	—	—	—	—
Drilling, other equipment and contracts	6,785	6,468	233	84	—	—
Lease rentals[4]	8,844	1,194	1,176	1,176	1,169	4,129
Office leases	9,196	3,058	2,913	2,580	645	—
	$ 349,506	$ 335,401	$ 4,322	$ 3,840	$ 1,814	$ 4,129

1. Principal amount of Notes based on the period end exchange rate of $1 US = 1.3840 CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not been satisfied.

2. Based on 10% per annum and a maturity date of August 1, 2016, at the year end exchange rate of $1 US = 1.3840 CDN.

3. The premium is based on the maximum premium paid if the Notes mature on August 1, 2016. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2016. Using the year exchange rate of $1US=1.3840 CDN this premium amounts to $20,201. At December 31, 2015, the Company had the option to redeem the Notes at a premium of 2.256% of the aggregate principal amount of the Notes outstanding which amounts to $6,245 using the year end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2016 maturity date, following the optional redemption schedule set out in the Notes indenture.

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

During 2014, the Company raised equity funds and completed additional financing, through the $20 million sale of assets and the issuance of US$200 million Notes, to enable it to meet these obligations and continue developing its business. The Company obtained discharge of outstanding liens by October 7, 2014, thus satisfying the condition in the Notes. From time to time, the Company receives liens or claims on accounts payable balances. Sunshine continues to work toward resolution of any 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 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the share subscription agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. Management considers the Action to be unfounded. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2015 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.

TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, who are related parties, have been eliminated on consolidation. There were no other related party transactions between the Company and related parties for the year ended December 31, 2015.

During the year ended December 31, 2014 the Company had transactions, totaling $1.5 million, with a law firm in which Mr. Turnbull, a former director of the Company, is a partner. Mr. Turnbull was a director until the time of his resignation on November 28, 2014. On this date the law firm ceased to be a related party of the Company. 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.

The Company's Executive Chairman, Mr. Kwok Ping Sun, purchased the Company's securities during 2015 (refer to the Purchases, Sale or Redemption of Sunshine's Listed Securities section of the MD&A). Mr. Sun has also loaned the Company funds on an unsecured basis (refer to the Subsequent Events section of the MD&A).

OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain lease agreements which are reflected in the table above under the heading "Commitments and contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at December 31, 2015, the Company did not have any other off-balance sheet arrangements.

SUBSEQUENT EVENTS

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan is considered Permitted Debt under the Company's Notes as long as it does not exceed US$5.0 million. The Loan has an interest rate of 6.0% per annum, can be drawn up to HK$38.0 million and requires repayment in full within six months from the date of the receipt of the Loan. The Company made several advances on the Loan from January 27, 2016 to March 24, 2016 and the loan is now drawn at HK$ 32.4 million (approximately $5.8 million).

On February 5, 2016, the Company confirmed that the maturity date for the Notes is now August 1, 2016 as the Company did not complete the requirements to maintain an August 1, 2017 maturity date by the applicable deadline. The Company paid the required interest on the Notes on February 1, 2016.

During the first quarter of 2016, all 132,910,941 remaining share purchase warrants expired.

On March 1, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Shares (HK $310,140,000 or approximately CDN $53.5 million) subscribed by Prime Union to May 2, 2016 from March 2, 2016. The remaining subscribed Shares can be closed in one or more tranches with the last tranche closing no later than May 2, 2016.

On March 15, 2016 in Hong Kong (March 15, 2016 in Calgary), the Corporation entered into a subscription agreement (the "Subscription Agreement") with Bright Hope Global Investments Limited ("Bright Hope Global") under which Bright Hope Global agreed to subscribe for a total of 558,823,500 Class "A" Common Voting Shares of the Corporation ("Common Shares") at a price of HK$ 0.34 per Common Share or approximately CDN$ 0.058 per Common Share at current exchange rates, which in the aggregate amounts to gross proceeds of HK$ 189,999,990 (approximately CDN$ 32,576,639 at current exchange rates) (the "Placement").

Completion of the Placement is subject to the fulfillment (or waiver) of the following conditions:

1. The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") approving the listing of the Common Shares to be issued pursuant to the Placement;

2. Compliance of the Placement with the requirements under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Code on Takeovers and Mergers (where applicable); and

3. The receipt of all other required regulatory approvals.

Completion of the Placement will take place on or before May 14, 2016 (or such other date as the Corporation may choose) (the "Closing Date"). In the event that (i) the Corporation suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Corporation shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Corporation takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Corporation and the Subscriber under the Subscription Agreement shall immediately and unconditionally cease and be null and void. There can be no assurance that the Placement will close as described.

The Company had a one year Irrevocable Standby Letter of Credit ("Letter") of $1.6 million issued on July 31, 2015. The Letter is due to mature on July 31, 2016 and is secured by a deposit held with a financial institution. The Company agreed with the vendor to draw on the Letter in order to settle past due amounts. Total amounts drawn in 2016 totalled $0.8 million.

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

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, 2018, 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.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company's 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

These consolidated 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 proved and probable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production forecasts, prices and other economic conditions;

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

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

Independent qualified reserve 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 ("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 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

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 Purchase Warrants

The Company recognises a liability for share purchase warrants with an exercise price in a currency other than the functional currency of the Company, which is remeasured at each reporting date. The initial recognition and subsequent remeasurement of the share purchase warrants is based on the estimated fair value of each share purchase at its grant date and each reporting date, the estimation of which requires management to make assumptions about future volatility of the Company's stock price, future interest rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

Share-based Compensation

The Company recognises compensation expense on options. Compensation expense is based on the estimated fair value of each option 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, 2014, which is available at www.sedar.com. The 2014 annual report of the Company is available at the Company's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Company's 2015 Annual Information Form is available at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Qiping Men, Chief Financial Officer, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the 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, 2015, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer evaluated the design and operation of the Company's DC&P. Based on that evaluation, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer concluded that the Company's DC&P were effective as at December 31, 2015.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Qiping Men, 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. Furthermore, the Company used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR at December 31, 2015, and concluded that the Company's ICFR are effective at December 31, 2015 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the three months and year ended December 31, 2015 that have materially affected, or is 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 SEHK and not shown elsewhere in this announcement is as follows:

CODE OF CORPORATE GOVERNANCE PRACTICE (THE "CODE")

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

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (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 compiled with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

PURCHASE, SALE OR REDEMPTION OF SUNSHINE'S LISTED SECURITIES

Class "A" Common Shares

Private Placements under Specific Mandate

On May 31, 2015, the Company entered into subscription agreements which were approved by independent shareholders at the SGM held on July 20, 2015. An aggregate of 524,734,210 subscription shares at the price of HK$0.75 (approximately CDN$0.12 on May 31, 2015), for aggregate cash consideration of HK$393.6 million (approximately CDN$63.3 million on May 31, 2015).

On July 27, 2015, the Company entered into subscription amending agreements with subscribers to extend the closing schedule of subscription shares. Pursuant to the terms of the subscription amending agreements, the first closing ("Partial Closing") was to be completed on August 20, 2015 for an aggregate of 111,214,210 shares for HK$83.4 million (approximately CDN$13.9 million on July 27, 2015). The remaining 413,520,000 shares (HK$310.1 million or approximately CDN$52.1 million on July 27, 2015) was to be closed in one or more tranches after August 20, 2015, with the last tranche closing no later than September 30, 2015.

On August 20, 2015, the Company completed the closing of 111,214,210 subscription shares authorized under the specific mandate. Upon the Partial Closing, the Corporation received total gross proceeds of HK$83.4 million (approximately CDN$14.1 million on August 20, 2015) for the allotment and issue of 111,214,210 subscription shares at a subscription price of HK$0.75 (approximately CDN$0.13) per share. The remaining 413,520,000 shares (HK$310.1 million or approximately CDN$52.3 million on August 20, 2015) were to be closed in one or more tranches with the last tranche closing no later than September 30, 2015.

On September 30, 2015 the Board of Directors consented to a further extension of the closing date for the remaining 413,520,000 shares to be closed in one or more tranches with the last tranche closing no later than November 2, 2015.

On November 2, 2015, the Board of Directors consented to a further extension of the closing date for the remaining 413,520,000 shares to be closed in one or more tranches with the last tranche closing no later than December 2, 2015.

On December 5, 2015, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 shares (HK$310.1 million or approximately CDN$53.5 million on December 5, 2015) subscribed for by Prime Union Enterprises Limited ("Prime Union") to March 2, 2016 from December 2, 2015. The remaining subscribed shares can be closed in one or more tranches with the last tranche closing no later than March 2, 2016.

On March 1, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Shares (HK $310,140,000 or approximately CDN $53.5 million) subscribed by Prime Union to May 2, 2016 from March 2, 2016. The remaining subscribed Shares can be closed in one or more tranches with the last tranche closing no later than May 2, 2016.

Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

Private Placements under General Mandate

On July 12, 2015, the Company entered into subscription agreements for an aggregate total of 254,144,262 class "A" common shares for gross proceeds of HK$155.0 million (approximately CDN$25.4 million on July 12, 2015) to be allotted and issued under the general mandate. On August 25, 2015, the Company announced the private placement had been mutually terminated by the Company and the subscribers.

On September 20, 2015, the Company entered into subscription agreement for a total of 100,000,000 class "A" common shares at a price of HK$0.50 per share (approximately CDN$0.08 per share on September 20, 2015) which in the aggregate amounts to gross proceeds of HK$50 million (approximately CDN$8.6 million on September 20, 2015). On September 30, 2015 the Company completed the closing of this subscription agreement.

On November 9, 2015, the Company entered into a subscription agreement for a total of 36,912,000 class "A" common shares at a price of HK$0.63 per share (approximately CDN$0.11 per common share on November 9, 2015), for gross proceeds of HK$23.3 million (approximately CDN$4.0 million on November 9, 2015). On November 23, 2015 the Company completed the closing of this subscription agreement.

On November 12, 2015, the Company entered into a subscription agreement for a total of 78,125,000 class "A" common share at a price of HK$0.64 per share (approximately CDN$0.11 per share), for gross proceeds of HK$50 million (approximately CDN$8.6 million on November 12, 2015). On November 30, 2015 the Company completed the closing of this subscription agreement.

Employee Share Savings Plan

During the year ended December 31, 2015, the Company issued 6,834,537 Class "A" common shares, from the Company's employee share savings plan ("ESSP") for gross proceeds of $0.7 million. During the year ended December 31, 2014, the Company issued 5,772,789 Class "A" common shares, from the Company's ESSP for gross proceeds of $0.8 million. The ESSP was discontinued by the Company on August 31, 2015.

Director Share Compensation Arrangement

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 then 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. During the year ended December 31, 2015, no shares were issued in lieu of cash. The Director Share Compensation Arrangement expired June 23, 2015 and was not renewed.

During the year ended December 31, 2015, neither the Company, nor any of its subsidiaries re-purchased, sold or redeemed any of the listed shares of the Company.

Post-IPO Stock Option Plan

For the three months and year ended December 31, 2015, the Company granted Nil and 9,065,387 Post-IPO stock options. During the three months and year ended December 31, 2015, there were 6,666,805 and 48,162,724 forfeitures and expiries of stock options. During the three months and year ended December 31, 2015, there were Nil and 1,075,166 stock options exercised.

SHARES OUTSTANDING

As at March 29, 2016, the Company had 4,230,264,104 Class "A" common shares issued and outstanding.

SUMMARY OF FINANCIAL STATEMENTS AND NOTES

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiaries, for the three months and year ended December 31, 2015, together with comparative figures for the corresponding periods in 2014 as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2015	December 31, 2014
Assets		
Current assets		
Cash	**$ 6,545**	$ 136,097
Restricted cash and cash equivalents	**14,389**	23,467
Trade and other receivables	**2,253**	1,913
Prepaid expenses and deposits	**8,119**	5,843
	31,306	167,320
Non-current assets		
Restricted cash and cash equivalents	**—**	11,601
Exploration and evaluation	**290,945**	379,403
Property, plant and equipment	**650,930**	701,736
	941,875	1,092,740
	$ 973,181	$ 1,260,060
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and accrued liabilities	**$ 47,611**	$ 28,128
Provisions	**3,492**	834
Share purchase warrants	**3**	109
Current portion of long-term debt	**266,321**	—
	317,427	29,071
Non-current liabilities		
Long-term debt	**—**	210,050
Provisions	**51,656**	48,650
Share purchase warrants	**—**	273
	369,083	288,044
Net current assets	**(286,121)**	138,249
Total assets less current liabilities	**655,754**	1,230,989
Shareholders' Equity		
Share capital	**1,174,987**	1,139,022
Reserve for share-based compensation	**62,910**	60,658
Deficit	**(633,799)**	(227,664)
	604,098	972,016
	$ 973,181	$ 1,260,060

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended December 31,		For the year ended December 31,	
	2015	2014	**2015**	2014
Other income				
Interest income	**$ 25**	$ 442	**$ 471**	$ 789
Gain on sale of assets	—	—	**174**	13,265
Fair value adjustment on share purchase warrants gains	**130**	5,022	**379**	8,201
	155	5,464	**1,024**	22,255
Expenses				
Salaries, consulting and benefits	**2,681**	2,051	**10,746**	7,352
Rent	**337**	322	**1,409**	1,255
Legal and audit	**139**	405	**1,891**	2,648
Depreciation and impairment	**295,159**	158	**295,593**	698
Share-based compensation	**287**	710	**1,563**	2,531
Suspension and preservation costs	—	(403)	—	4,789
Finance costs	**17,857**	8,735	**47,543**	15,916
Foreign exchange losses	**7,999**	5,063	**36,306**	9,162
Contract provision expense	**36**	—	**6,636**	—
Other	**1,421**	703	**5,472**	4,671
	$ 325,916	$ 17,744	**$ 407,159**	$ 49,022
Loss before income taxes	**325,761**	12,280	**406,135**	26,767
Income taxes	—	—	—	—
Net loss and comprehensive loss for the period attributable to equity holders of the Company	**$ 325,761**	$ 12,280	**$ 406,135**	$ 26,767
Basic and diluted loss per share	**$ 0.08**	$ 0.00	**$ 0.10**	$ 0.01

Notes

1. *Basis of Preparation*

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards 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 ("$"), which is the functional currency of the Company.

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiary, Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong"). 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. On July 14, 2015, Boxian was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. No activity has yet occurred in Boxian as at the date of this MD&A.

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 reimbursable expenditures and goods and services tax receivables due from government taxation authorities. These are summarized as follows:

	December 31, 2015	December 31, 2014
Trade	**$ 1,184**	$ 1,035
Accruals and other receivables	**56**	22
Goods and services taxes receivable	**1,013**	856
	$ 2,253	$ 1,913

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 year:

	December 31, 2015	December 31, 2014
0 - 30 days	**$ 66**	$ 74
31 - 60 days	**(2)**	12
61 - 90 days	**2**	11
>90 days	**1,118**	938
	$ 1,184	$ 1,035

As at December 31, 2015, included in the Company's trade receivables were debtors with an aggregate carrying amount of $1.1 million (December 31, 2014 - $1.0 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. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting year:

	December 31, 2015	December 31, 2014
Trade		
0 - 30 days	**$ 11,093**	$ 3,007
31 - 60 days	**6,284**	180
61 - 90 days	**3,131**	172
> 91 days	**2,210**	662
	22,718	4,021
Accrued liabilities	**24,893**	24,107
	$ 47,611	$ 28,128

5. Dividends

The Company has not declared or paid any dividends in respect of the three months and year ended December 31, 2015 (2014 - $Nil).

6. Income Taxes

The components of the net deferred income tax asset are as follows:

	December 31, 2015	December 31, 2014
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	**$ (94,478)**	$ (137,644)
Decommissioning liabilities	**13,947**	12,371
Share issue costs	**6,790**	10,159
Non-capital losses	**194,902**	130,061
Deferred tax benefits not recognized	**(121,161)**	(14,947)
	$ —	$ —

The Company's non-capital losses of $721,858 (December 31, 2014 - $520,247), expire between 2028 and 2035.

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 27.0%. The Company had no assessable profit in Canada for the three months and year ended December 31, 2015. 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 $1.3 billion. The Company's tax losses will begin expiring in 2028.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three months and year ended December 31, 2015.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements for the Company for the year ended December 31, 2015, 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), the SEHK (www.hkexnews.hk) and the Company's website at www.sunshineoilsands.com.

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

Deloitte.

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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, 2015 and 2014, 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 ended December 31, 2015 and December 31, 2014, and the notes to the consolidated financial statements.

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, 2015 and 2014, and its financial performance and its cash flow for the years ended December 31, 2015 and December 31, 2014, in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 which indicates that for the year ended December 31, 2015 Sunshine Oilsands Ltd. incurred a net loss of $406.1 million and had a negative working capital of $286.1 million and an accumulated deficit of $633.8 million at December 31, 2015. 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 Sunshine Oilsands Ltd.'s ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
March 29, 2016
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

	Notes	As at December 31, 2015	2014
Assets			
Current assets			
Cash	4	**$ 6,545**	$ 136,097
Restricted cash and cash equivalents	4	**14,389**	23,467
Trade and other receivables	5	**2,253**	1,913
Prepaid expenses and deposits	6	**8,119**	5,843
		31,306	167,320
Non-current assets			
Restricted cash and cash equivalents	4	—	11,601
Exploration and evaluation	7	**290,945**	379,403
Property, plant and equipment	8	**650,930**	701,736
		941,875	1,092,740
		$ 973,181	$ 1,260,060
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and accrued liabilities	9	**$ 47,611**	$ 28,128
Provisions	11	**3,492**	834
Share purchase warrants	13.2	**3**	109
Current portion of long-term debt	10	**266,321**	—
		317,427	29,071
Non-current liabilities			
Long-term debt	10	—	210,050
Provisions	11	**51,656**	48,650
Share purchase warrants	13.2	—	273
		369,083	288,044
Shareholders' Equity			
Share capital	13	**1,174,987**	1,139,022
Reserve for share-based compensation		**62,910**	60,658
Deficit		**(633,799)**	(227,664)
		604,098	972,016
		$ 973,181	$ 1,260,060

Going concern (note 2)
Commitments and contingencies (note 20)
Subsequent events (note 22)

Approved by the Board

"Robert J. Herdman"	**"Kwok Ping Sun"**
Director	*Executive Chairman*

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 year ended December 31,	
	Notes	**2015**	2014
Other income			
Interest income		**$ 471**	$ 789
Gain on sale of assets	7, 8	**174**	13,265
Fair value adjustment on share purchase warrants	13.2	**379**	8,201
		1,024	22,255
Expenses			
Salaries, consulting and benefits		**10,746**	7,352
Rent		**1,409**	1,255
Legal and audit		**1,891**	2,648
Depreciation and impairment	7,8	**295,593**	698
Share-based compensation	14.6	**1,563**	2,531
Suspension and preservation costs	8	—	4,789
Finance costs	15	**47,543**	15,916
Foreign exchange losses	17.6	**36,306**	9,162
Contract provision expense	11.2	**6,636**	—
Other		**5,472**	4,671
		$ 407,159	$ 49,022
Loss before income taxes		**406,135**	26,767
Income taxes	12	—	—
Net loss and comprehensive loss for the year attributable to equity holders of the Company		**$ 406,135**	$ 26,767
Basic and diluted loss per share	16	**$ 0.10**	$ 0.01

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, 2014		**$ 60,658**	**$ 1,139,022**	**$ (227,664)**	**$ 972,016**
Net loss and comprehensive loss for the year		—	—	**(406,135)**	**(406,135)**
Issue of common shares	13.1	—	**35,287**	—	**35,287**
Issue of shares under employee share savings plan	13.1	—	**711**	—	**711**
Recognition of share-based compensation	14.6	**2,307**	—	—	**2,307**
Issue of shares upon exercise of share options	13.1	—	**108**	—	**108**
Reserve transferred on exercise of share options	13.1	**(55)**	**55**	—	—
Share issue costs, net of deferred tax ($Nil)	13.1	—	**(196)**	—	**(196)**
Balance, December 31, 2015		**$ 62,910**	**$ 1,174,987**	**$ (633,799)**	**$ 604,098**
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		—	114,372	—	114,372
Issue of shares under employee share savings plan		—	835	—	835
Issue of shares under director share arrangement		—	261	—	261
Recognition of share-based compensation		3,211	—	—	3,211
Share issue costs, net of deferred tax ($Nil)		—	(869)	—	(869)
Balance, December 31, 2014		$ 60,658	1,139,022	(227,664)	972,016

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	**2015**	2014
Cash flows used in operating activities			
Net loss		**$ (406,135)**	$ (26,767)
Finance costs		**47,543**	15,916
Unrealized foreign exchange losses	17.6	**34,474**	8,972
Contract provision expense	11.2	**6,636**	—
Interest income		**(471)**	(789)
Gain on sale of assets	7, 8	**(174)**	(13,265)
Fair value adjustment on share purchase warrants	13.2	**(379)**	(8,201)
Depreciation and impairment	7,8	**295,593**	698
Share-based compensation	14.6	**1,563**	2,531
Employee share savings plan	14.2	**356**	419
Movement in non-cash working capital	21	**2,714**	(11,360)
Net cash used in operating activities		**(18,280)**	(31,846)
Cash flows used in investing activities			
Interest received		**471**	789
Payments for exploration and evaluation assets	21	**(1,375)**	(5,232)
Payments for property, plant and equipment	21	**(144,216)**	(140,978)
Movement in restricted cash	4	**20,679**	(35,068)
Net cash used in investing activities		**(124,441)**	(180,489)
Cash flows provided in financing activities			
Proceeds from issue of common shares	13.1	**35,751**	119,541
Proceeds from sale of assets	7, 8	**447**	20,000
Proceeds from long term debt	10	**—**	194,413
Payment for share issue costs	21	**(196)**	(869)
Payment for finance costs	21	**(30,339)**	(3,209)
Net cash provided by financing activities		**5,663**	329,876
Effect of exchange rate changes on cash held in foreign currency	17.6	**7,506**	2,702
Net (decrease)/increase in cash		**(129,552)**	120,243
Cash, beginning of year		**136,097**	15,854
Cash, end of year		**$ 6,545**	$ 136,097

See accompanying notes to the consolidated financial statements.

1. COMPANY INFORMATION

Sunshine Oilsands Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of its principal place of business is 1020, 903 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 0P7. The Company's shares were listed on the Stock Exchange of Hong Kong Limited ("SEHK") on March 1, 2012 pursuant to an initial public offering ("IPO") and trades under the stock code symbol of "2012". On November 16, 2012, the Company completed a listing of its common shares on the Toronto Stock Exchange ("TSX") and traded under the symbol of "SUO". On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company continues to be a reporting issuer in Canada.

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.

On July 14, 2015, Boxian Investments Limited ("Boxian") was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Boxian is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As of December 31, 2015, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

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 for 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, 2015, the Company reported a net loss of $406.1 million. At December 31, 2015, the Company had negative working capital of $286.1 million including the $266.3 million current portion of the senior secured notes (Note 10) and an accumulated shareholder's deficit of $633.8 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 refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

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 17). 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.

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 ("E&E 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 compensation

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

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 Hong Kong. As of December 31, 2015, no activity has occurred in Boxian.

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

3.2 Oil and Natural Gas Exploration and Development Expenditures

Exploration and evaluation assets

E&E Assets are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, 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 E&E Assets until the drilling of the well is complete and the results have been evaluated.

Pre-acquisition costs for oil and gas assets are recognised in the consolidated statements of operations and comprehensive loss when incurred. Acquisition of undeveloped mineral leases is initially capitalized as E&E 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. E&E Assets can be further broken down into tangible and intangible assets. Intangible costs are all costs considered necessary to drill a well and ready a site prior to the installation of the production equipment. Tangible drilling costs are those incurred to purchase and install the production equipment and 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 proved and probable 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.

E&E Assets are tested for impairment at least annually and prior to reclassification. To test for impairment, E&E 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 E&E Assets are written down to the recoverable amount through the consolidated statements of operations and comprehensive loss.

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

3.3 Property, plant and equipment

Carrying value

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

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

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

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

Maintenance and repairs

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

3.4.1 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 compensation

3.5.1 Equity-settled share-based compensation

Share options and preferred shares issued to employees

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

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

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

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

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

Share options and preferred shares issued to non-employees

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

3.5.2 Cash-settled share-based compensation transactions

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

3.6 Financial assets

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

3.6.2 Loans and receivables

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

3.6.3 Impairment of financial assets

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

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

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

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

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

3.6.4 Derecognition of financial assets

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

3.7 Financial liabilities and equity instruments issued by the Company

3.7.1 Classification as debt or equity

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

3.7.2 Equity instruments

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

3.7.3 Financial liabilities

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

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

The Company has classified its share purchase warrants at FVTPL.

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

3.9.2 Deferred tax

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

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

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

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

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

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

3.10 Cash and cash equivalents

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

3.11 Restricted cash and cash equivalents

Restricted cash and cash equivalents includes cash held in a treasury note within a restricted escrow account.

3.12 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.

3.13 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.

3.14 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 senior secured notes.

3.15 Jointly controlled assets

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

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

3.16 Future accounting policy 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, 2018, 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.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company's financial statements.

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

4. CASH AND CASH EQUIVALENTS

	2015	2014
Current asset		
Cash[1]	$ 6,545	$ 136,097
Current restricted cash and cash equivalents[2]	14,389	23,467
	$ 20,934	$ 159,564
Non-current asset		
Non-current restricted cash and cash equivalents[2]	—	11,601
	$ 20,934	$ 171,165

1. The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates of between 0.01% and 1.30%.

2. 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 semi-annual interest payments on the senior secured notes. There is one restricted escrow account interest payment remaining of US$10 million, due on February 1, 2016. The Company's restricted cash for interest payments consists of cash held in a treasury note.

5. TRADE AND OTHER RECEIVABLES

	2015	2014
Trade	$ 1,184	$ 1,035
Accruals and other receivables	56	22
Goods and Services Taxes receivable	1,013	856
	$ 2,253	$ 1,913

As at December 31, 2015, included in the Company's trade receivables was an aggregate carrying amount of $1.2 million (December 31, 2014 - $1.0 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances.

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

6. PREPAID EXPENSES AND DEPOSITS

	2015	2014
Prepaid expenses	**$ 518**	$ 132
Deposits	**7,601**	5,711
	$ 8,119	$ 5,843

As at December 31, 2015, the deposits include $5.1 million held with the Alberta Energy Regulator for the License Liability Rating Program. The remaining deposits include ordinary business deposits of $0.9 million and an amount relating to a one year Irrevocable Standby Letter of Credit ("Letter") of $1.6 million issued on July 31, 2015. The Letter is due to mature on July 31, 2016 and is secured by a deposit held with a financial institution. The Company agreed with the vendor to draw on the Letter in order to settle past due amounts. Total amounts drawn in 2016 totalled $0.8 million.

7. EXPLORATION AND EVALUATION

Balance, December 31, 2013	$ 376,912
Capital expenditures	5,232
Non-cash expenditures[1]	4,025
Disposal	(6,766)
Impairment	—
Balance, December 31, 2014	$ 379,403
Capital expenditures	1,375
Non-cash expenditures[1]	167
Impairment	(90,000)
Balance, December 31, 2015	$ 290,945

1. Non-cash expenditures include capitalized share-based compensation and decommissioning obligations.

The Company is a development stage entity and, as a result, no depletion expense has been recorded for E&E Assets for any period. During the year ended December 31, 2015, the Company capitalized directly attributable costs/(recovery) including $Nil for share-based compensation (2014 - $(0.1) million) and $0.1 million of general and administrative costs (2014 - $2.4 million).

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 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 was 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 provision for decommissioning obligation of $41,900 which was removed from the Company's Asset Retirement Obligation cost account.

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

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, 2015.

Gross exploration and evaluation costs (before impairment) are comprised of the following:

	2015	2014
Intangibles	**$ 272,278**	$ 272,469
Tangibles	**18,683**	18,682
Land and lease costs	**89,984**	88,252
	$ 380,945	$ 379,403

Impairment

As at December 31, 2015, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates 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; and (iv) the discount rate and risk factors to be applied to such revenues and costs for the purposes of deriving a recoverable value.

Reserve and resource values were based on the Company's December 31, 2015 reserve report as prepared by its independent reserve engineer GLJ Petroleum Consultants (GLJ). The recoverable amount of the E&E Assets was estimated based on proved plus probable reserves plus risked best estimate contingent resources using a pre-tax discount rate of 12 percent with a further discount factor of 62.5 percent applied to best estimate contingent resources.

For the year ended December 31, 2015, the Company recognized an impairment of $90 million (December 31, 2014 - $Nil) on its E&E Assets where the carrying value exceeded the estimated recoverable amount. The impairment was recorded in depreciation and impairment in the Consolidated Statements of Operations and Comprehensive Loss. The impairment recorded at December 31, 2015 may be reversed in the future if there has been a change in the estimates used to determine the recoverable amount.

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

8. PROPERTY, PLANT AND EQUIPMENT

	Crude oil assets	Corporate assets	Total
Cost			
Balance, December 31, 2013	$ 632,249	$ 3,685	$ 635,934
Capital expenditures	46,491	63	46,554
Non-cash expenditures[1]	21,208	—	21,208
Balance, December 31, 2014	$ 699,948	$ 3,748	$ 703,696
Capital expenditures	152,207	1,160	153,367
Disposal of asset	—	(446)	(446)
Non-cash expenditures[1]	1,693	—	1,693
Balance, December 31, 2015	$ 853,848	$ 4,462	$ 858,310

1. Non-cash expenditures include capitalized share-based compensation and decommissioning obligations.

	Crude oil assets	Corporate assets	Total
Accumulated depreciation and impairment			
Balance, December 31, 2013	$ —	$ 1,262	$ 1,262
Depreciation expense	—	698	698
Impairment	—	—	—
Balance, December 31, 2014	$ —	$ 1,960	$ 1,960
Disposal of asset	—	(173)	(173)
Depreciation expense	—	593	593
Impairment	205,000	—	205,000
Balance, December 31, 2015	$ 205,000	$ 2,380	$ 207,380
Carrying value, December 31, 2015	$ 648,848	$ 2,082	$ 650,930
Carrying value, December 31, 2014	$ 699,948	$ 1,788	$ 701,736

At December 31, 2015, 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, 2015, the Company capitalized directly attributable costs including $0.7 million for share-based compensation (2014 - $1.1 million) and $6.0 million for general and administrative costs (2014 – $4.8 million).

During the second quarter of 2015, the Company was reimbursed for leasehold improvement expenditures that had previously been capitalized. Pursuant to the sublease agreement, the Company received proceeds of $0.4 million which resulted in derecognition of the asset and a gain of $0.2 million was recognized.

Costs directly related to the suspension, which totaled $Nil for the year ended December 31, 2015 (2014 - $4.8 million), are recognized as suspension and preservation costs in the Consolidated Statements of Operations and Comprehensive Loss. After completion of transactions during July and August 2014, the suspension was lifted and construction of the West Ells SAGD project recommenced.

Impairment

As at December 31, 2015 the Company reviewed the West Ells CGU for circumstances that indicated the asset may be impaired due to a significant and sustained decline in forward commodity benchmark prices, compared to those at December 31, 2014, resulting in an impairment of $205 million (December 31, 2014 - $Nil).

The recoverable amount of the West Ells CGU as at December 31, 2015 was determined using value-in-use, with the assumptions that follow. Reserve and resource values were based on the Company's December 31, 2015 reserve report as prepared by its independent reserve engineer GLJ Petroleum Consultants (GLJ). In assessing value-in-use the recoverable amount of the West Ells CGU was estimated based on proved plus probable reserves plus risked best estimate contingent resources using a pre-tax discount rate specific to the underlying composition of the reserve and resource categories and risk profile of West Ells. The discount rate used was 12 percent with a further discount factor of 25.0 percent applied to best estimate contingent resources. Key input estimates used in the determination of cash flows from West Ells reserves and resources included: quantities of reserves and resources and future production; forward commodity pricing as prepared by GLJ; development, operating and abandonment costs; royalty obligations and discount and risk rates.

The value-in-use used to determine the recoverable amounts of the impaired PP&E assets are classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data.

The results of the Company's impairment assessment on West Ells are sensitive to changes in any of the key input estimates of which changes could decrease or increase the recoverable amount of the asset and result in additional impairment charges or recovery of those impairments. If a pre-tax discount rate of 10 percent had been used in all reserve and resource categories in the determination of the West Ells recoverable amount, the impairment charge would have been $Nil. If a pre-tax discount rate of 15 percent had been used on all reserve and resource categories in the determination of the West Ells recoverable amount, the Company would have recorded an additional impairment charge of $371 million.

Assuming a pre-tax discount rate of 12 percent had been used in all reserve and resource categories with a 5 percent increase in the forecast benchmark WTI price (in the determination of the West Ells recoverable amount), the impairment charge would have been $Nil. With a 5 percent decrease in the forecast benchmark WTI price (in the determination of the West Ells recoverable amount), the Company would have recorded an additional impairment charge of $139 million.

The impairment was recorded in depreciation and impairment in the Consolidated Statements of Operations and Comprehensive Loss. The impairment recorded at December 31, 2015 may be reversed in the future if there has been a change in the estimates used to determine the recoverable amount.

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

The following table was used in the December 31, 2015 impairment testing and summarizes the price forecast used in the Company's discounted cash flow estimates. The table is the GLJ Petroleum Consultants' pricing forecast effective January 1, 2016.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @ Cushing $US/bbl	WCS @ Hardisty $/bbl	Heavy Oil 12 API @ Hardisty $/bbl	AECO Spot ($/MMbtu)
2016	2	0.725	44.00	42.26	35.70	2.76
2017	2	0.750	52.00	51.20	45.02	3.27
2018	2	0.775	58.00	55.39	49.06	3.45
2019	2	0.800	64.00	60.84	54.42	3.63
2020	2	0.825	70.00	66.18	59.75	3.81
2021	2	0.850	75.00	70.00	63.56	3.90
2022	2	0.850	80.00	75.88	69.32	4.10
2023	2	0.850	85.00	81.41	74.62	4.30
2024	2	0.850	87.88	84.90	78.40	4.50
2025	2	0.850	89.63	86.60	79.99	4.60
2026+	escalate oil, gas and product prices at 2% per year thereafter					

9. TRADE AND ACCRUED LIABILITIES

	2015	2014
Trade	**$ 22,718**	$ 4,021
Accrued liabilities	**24,893**	24,107
	$ 47,611	$ 28,128

10. LONG-TERM DEBT

	2015	2014
Senior secured notes (US$200,000,000)	**$ 276,800**	$ 232,020
Discount on notes	**(17,159)**	(14,383)
Financing transaction costs on notes	**(11,846)**	(11,846)
Amortization of financing transaction costs and discount	**18,526**	4,259
Balance, end of year	**$ 266,321**	$ 210,050

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 potential maturity date of August 1, 2017, if certain conditions are met.

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, 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 did not meet the requirements listed above by February 1, 2016, and as a result the final maturity date of the Notes will be August 1, 2016. The Company has presented the Notes as a current liability on the Consolidated Statements of Financial Position as at December 31, 2015.

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. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At December 31, 2015, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 102.256% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is $6.2 million and is recorded in the Consolidated Statements of Financial Position as at December 31, 2015.

The Notes are senior secured obligations over the Company's assets. Transaction costs in relation to the issuance of the Notes were $11.8 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, 2015, was 16.9% which includes interest and amortization of the applicable financing costs and discount.

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, 2015.

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 under Canadian Securities Legislation and includes timely reporting of material changes. The Company is in material compliance with all covenants under the Notes as at December 31, 2015.

As at December 31, 2015, US$10.4 million of proceeds from the Notes are held is a separate escrow account with a trustee. These funds are restricted to cover the third interest payment due on February 1, 2016. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The Notes are translated into Canadian dollars at the year-end exchange rate of $1 US = 1.3840 CDN

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

11. PROVISIONS

	2015	2014
Decommissioning obligations (Note 11.1)	**$ 51,656**	$ 49,484
Contract provision (Note 11.2)	**3,492**	—
	$ 55,148	$ 49,484
Presented as:		
Provisions (current)	**$ 3,492**	$ 834
Provisions (non-current)	**$ 51,656**	$ 48,650

11.1 Decommissioning obligations

As at December 31, 2015, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $81.8 million (December 31, 2014 - $83.3 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 0.48% to 2.04% per annum and inflated using an inflation rate of 2.0% per annum.

	2015	2014
Balance, beginning of year	**$ 49,484**	$ 24,469
Additional provision recognized	—	3
Disposal of Asset (Note 7)	—	(42)
Effect of changes in discount rate	**1,117**	24,293
Unwinding of discount rate	**1,055**	761
	$ 51,656	$ 49,484
Current portion	—	(834)
Balance, end of year	**$ 51,656**	$ 48,650

11.2 Contract provision

At June 30, 2015, the Company recognized a full liability provision related to obligations under a drilling rig contract of $6.6 million (December 31, 2014 - $ Nil). The $6.6 million represents the maximum obligation required if the drilling rig is not utilized over the remaining term of the contract, which ends in the fourth quarter of 2016. At December 31, 2015, this obligation is broken into a $3.1 million payable and an additional $3.5 million provision. Based on current market conditions and low utilization rates for drilling rigs, management concluded the future benefits of the contract are not currently quantifiable to offset its obligations under the contract. In future periods if the drilling rig is utilized the provision will be adjusted accordingly.

(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 27.0% (2014 – 25.0%) to earnings before income taxes for the following reasons:

For the year ended December 31,	**2015**	2014
Net loss before taxes	**$ (406,135)**	$ (26,767)
Tax rate (%)	**27.0%**	25.0%
Expected income tax recovery	**(109,656)**	(6,692)
Effect of expenses that are not deductible in determining taxable profit:		
Share based payment expense	**422**	633
Capital portion of foreign exchange	**9,295**	2,254
Unrecognized tax assets		
Changes to opening tax pools	**216**	10,111
Change in deferred tax benefits not recognized	**99,723**	(6,306)
Income tax recovery	**$ —**	$ —

12.2 Deferred tax balances

The components of the net deferred income tax asset are as follows:

	December 31, 2015	December 31, 2014
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	**$ (94,478)**	$ (137,644)
Decommissioning liabilities	**13,947**	12,371
Share issue costs	**6,790**	10,159
Non-capital losses	**194,902**	130,061
Deferred tax benefits not recognized	**(121,161)**	(14,947)
	$ —	$ —

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

12.3 Tax pools

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

	December 31, 2015	December 31, 2014
Canadian development expense	**$ 42,888**	$ 39,455
Canadian exploration expense	**230,899**	214,890
Undepreciated capital cost	**318,168**	276,217
Non-capital losses	**721,858**	520,247
Share issue costs	**25,149**	40,638
	$ 1,338,962	$ 1,091,447

The Company's non-capital losses of $721,858 (December 31, 2014 - $520,247), expire between 2028 and 2035.

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

	2015	2014
Common shares	**$ 1,174,987**	$ 1,139,022

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

13.1 Common shares

For year ended December 31,	2015		2014	
	Number of shares	**$**	Number of shares	$
Balance, beginning of year	**3,896,103,191**	**1,139,022**	3,067,167,791	1,024,423
Private placements – specific mandate	**111,214,210**	**14,073**	—	—
Private placements – general mandate	**215,037,000**	**21,214**	821,242,193	119,123
Issue of shares under employee share savings plan (Note 14.2)	**6,834,537**	**711**	5,772,789	835
Director share arrangement (Note 14.3)	—	—	1,920,418	261
Reclassification of share purchase warrants (Note 13.2)	—	—	—	(4,751)
Issue of shares under share option plan (Note 14.5)	**1,075,166**	**108**	—	—
Share option reserve transferred on exercise of stock options	—	**55**	—	—
Share issue costs, net of deferred tax ($Nil)	—	**(196)**	—	(869)
Balance, end of year	**4,230,264,104**	**1,174,987**	3,896,103,191	1,139,022

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.

Private placements under specific mandate

On May 31, 2015, the Company entered into subscription agreements which were approved by independent shareholders at the SGM held on July 20, 2015. An aggregate of 524,734,210 subscription shares at the price of HK$0.75 (approximately CDN$0.12 on May 31, 2015), for aggregate cash consideration of HK$393.6 million (approximately CDN$63.3 million on May 31, 2015).

On July 27, 2015, the Company entered into subscription amending agreements with subscribers to extend the closing schedule of subscription shares. Pursuant to the terms of the subscription amending agreements, the first closing (“Partial Closing”) was to be completed on August 20, 2015 for an aggregate of 111,214,210 shares for HK$83.4 million (approximately CDN$13.9 million on July 27, 2015). The remaining 413,520,000 shares (HK$310.1 million or approximately CDN$52.1 million on July 27, 2015) was to be closed in one or more tranches after August 20, 2015, with the last tranche closing no later than September 30, 2015.

On August 20, 2015, the Company completed the closing of 111,214,210 subscription shares authorized under the specific mandate. Upon the Partial Closing, the Corporation received total gross proceeds of HK$83.4 million (approximately CDN$14.1 million on August 20, 2015) for the allotment and issue of 111,214,210 subscription shares at a subscription price of HK$0.75 (approximately CDN$0.13) per share. The remaining 413,520,000 shares (HK$310.1 million or approximately CDN$52.3 million on August 20, 2015) were to be closed in one or more tranches with the last tranche closing no later than September 30, 2015.

On September 30, 2015 the Board of Directors consented to a further extension of the closing date for the remaining 413,520,000 shares to be closed in one or more tranches with the last tranche closing no later than November 2, 2015.

On November 2, 2015, the Board of Directors consented to a further extension of the closing date for the remaining 413,520,000 shares to be closed in one or more tranches with the last tranche closing no later than December 2, 2015.

On December 5, 2015, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 shares (HK$310.1 million or approximately CDN$53.5 million on December 5, 2015) subscribed for by Prime Union Enterprises Limited ("Prime Union") to March 2, 2016 from December 2, 2015. The remaining subscribed shares can be closed in one or more tranches with the last tranche closing no later than March 2, 2016.

On March 1, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Shares (HK $310,140,000 or approximately CDN $53.5 million) subscribed by Prime Union to May 2, 2016 from March 2, 2016. The remaining subscribed Shares can be closed in one or more tranches with the last tranche closing no later than May 2, 2016.

Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

Private placements under general mandate

On July 12, 2015, the Company entered into subscription agreements for an aggregate total of 254,144,262 class "A" common shares for gross proceeds of HK$155.0 million (approximately CDN$25.4 million on July 12, 2015) to be allotted and issued under the general mandate. On August 25, 2015, the Company announced the private placement had been mutually terminated by the Company and the subscribers.

On September 20, 2015, the Company entered into subscription agreement for a total of 100,000,000 class "A" common shares at a price of HK$0.50 per share (approximately CDN$0.08 per share on September 20, 2015) which in the aggregate amounts to gross proceeds of HK$50 million (approximately CDN$8.6 million on September 20, 2015). On September 30, 2015 the Company completed the closing of this subscription agreement.

On November 9, 2015, the Company entered into a subscription agreement for a total of 36,912,000 class "A" common shares at a price of HK$0.63 per share (approximately CDN$0.11 per common share on November 9, 2015), for gross proceeds of HK$23.3 million (approximately CDN$4.0 million on November 9, 2015). On November 23, 2015 the Company completed the closing of this subscription agreement.

On November 12, 2015, the Company entered into a subscription agreement for a total of 78,125,000 class "A" common share at a price of HK$0.64 per share (approximately CDN$0.11 per share), for gross proceeds of HK$50 million (approximately CDN$8.6 million on November 12, 2015). On November 30, 2015 the Company completed the closing of this subscription agreement.

Employee share savings plan

During the year ended December 31, 2015, the Company issued 6,834,537 Class "A" common shares, from the Company's employee share savings plan ("ESSP") for gross proceeds of $0.7 million. During the year ended December 31, 2014, the Company issued 5,772,789 Class "A" common shares, from the Company's ESSP for gross proceeds of $0.8 million. The ESSP was discontinued by the Company on August 31, 2015.

Post-IPO stock option plan

During the year ended December 31, 2015, the Company issued 1,075,166 Class "A" common shares, from the exercise of 1,075,166 stock options at a weighted average price of $0.10 per share for cash proceeds of $0.1 million. The Company did not have any stock options exercised for the year ended December 31, 2014.

2014 activity

During the 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 completed closings of equity private placements, totaling 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 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 $0.28 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 $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 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.

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, 2015, the Company recognized a gain of $0.4 million (December 31, 2014, the gain recognized was $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).

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

13.2 Share purchase warrants

For year ended December 31,	**2015**		2014	
	Number of warrants	**Weighted average exercise price $**	Number of warrants	Weighted average exercise price $
Balance, beginning of year	**211,230,941**	**0.28**	78,320,000	0.26
Issued under private placement	—	—	132,910,941	0.27
Expired	**(78,320,000)**	**0.34**	—	—
Balance, end of year	**132,910,941**	**0.34**	211,230,941	0.28
Exercisable, end of year	**132,910,941**	**0.34**	211,230,941	0.28

During the year ended December 31, 2015, 78,320,000 share purchase warrants expired. As of December 31, 2015, no share purchase warrants were exercised. During the first quarter of 2016, all 132,910,941 remaining share purchase warrants expired.

As at December 31, 2015, the share purchase warrants outstanding had a weighted average remaining contractual life of 0.12 years (December 31, 2014 – 1.04 years).

The table below details the fair value of warrants during the years noted:

For year ended December 31,	**2015**	2014
Balance, beginning of year	**$ 382**	$ 3,832
Issued under private placement	—	4,751
Fair value adjustment	**(379)**	(8,201)
Balance, end of year	**$ 3**	$ 382

14. SHARE-BASED COMPENSATION

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 Annual and Special Meeting of Shareholders on June 13, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan have an exercise price that is determined by the Board of Directors but is not less than the higher of: the closing price on the 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 and shareholders approved the establishment of an 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 matched 100% of a participating employee's contributions to the ESSP up to a set maximum. Contributions made by the Company and employees were used to purchase Company shares. Compensation expense is recognized based on the fair value of the award on the ESSP contribution date. The ESSP was discontinued by the Company on August 31, 2015.

14.3 Director Share Arrangement

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 then 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 results 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, 2015, no shares were issued in lieu of cash. 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. The Director Share Compensation Arrangement expired on June 23, 2015 and was not renewed.

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

14.4 Fair value of share options granted in the year

The weighted average fair value of the share options granted for the year ended December 31, 2015 was $0.12 (year ended December 31, 2014 - $0.06). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2015 and 2014. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 11.01% to 11.51%.

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	**2015**	2014
Grant date share price ($)	**0.10-0.14**	0.09-0.135
Exercise Price ($)	**0.10-0.14**	0.09-0.135
Expected volatility (%)	**67.01-73.99**	64.84-65.84
Option life (years)	**4.10-4.11**	4.1
Dividend yield (%)	—	—
Risk-free interest rate (%)	**0.68-0.90**	1.21-1.40
Expected forfeitures (%)	**11.01-11.51**	11.04-11.13

14.5 Movements in stock options

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

For the year ended December 31,	**2015**		2014	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance, beginning of year	**135,727,289**	**0.30**	135,145,593	0.43
Granted	**9,065,387**	**0.12**	70,619,940	0.13
Exercised	**(1,075,166)**	**0.10**	—	—
Forfeited	**(20,121,953)**	**0.20**	(17,413,986)	0.39
Expired	**(28,040,771)**	**0.28**	(52,624,258)	0.36
Balance, end of year	**95,554,786**	**0.31**	135,727,289	0.30
Exercisable, end of year	**71,686,715**	**0.35**	81,378,764	0.36

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

As at December 31, 2015, stock options outstanding had a weighted average remaining contractual life of 2.9 years (December 31, 2014 – 3.3 years).

The Company granted 9,065,387 stock options during the year ended December 31, 2015. The stock options were granted to certain officers and employees. No substantial shareholder, chief executive or associate of any of those parties were granted options.

14.6 Share-based compensation

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

For the year ended December 31,	2015			2014		
	Expensed	**Capitalized**	**Total**	Expensed	Capitalized	Total
Stock options	**$ 1,563**	**$ 744**	**$ 2,307**	$ 2,270	$ 941	$ 3,211
Director share arrangement	**—**	**—**	**—**	261	—	261
	$ 1,563	**$ 744**	**$ 2,307**	$ 2,531	$ 941	$ 3,472

15. FINANCE COSTS

For the year ended December 31,	2015	2014
Interest expense on senior secured notes	**$ 26,030**	$ 8,909
Amortization of financing transaction costs and discount	**14,267**	4,259
Redemption/yield maintenance premium	**6,245**	—
Financing related costs	**232**	1,720
Other interest expense/(recovery)	**(286)**	267
Unwinding of discounts on provisions	**1,055**	761
	$ 47,543	$ 15,916

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

16. 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,	**2015**	2014
Basic and Diluted – Class "A" common shares	**3,977,269,532**	3,567,916,546

17. FINANCIAL INSTRUMENTS

17.1 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 dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access additional financing.

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

	2015	2014
Working capital deficiency/(surplus)	**$ 286,121**	$ (138,249)
Long term debt	—	210,050
Shareholders' equity	**604,098**	972,016
	$ 890,219	$ 1,043,817

The working capital deficiency of $286.1 million at December 31, 2015, includes the $266.3 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the years ended December 31, 2015.

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

17.2 Categories of financial instruments

	2015		2014	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Cash, restricted cash and cash equivalents, deposits and other receivables	**$ 30,788**	**$ 30,788**	$ 178,789	$ 178,789
Financial liabilities				
Other liabilities	**47,611**	**47,611**	28,128	23,828
Share purchase warrants (Note 13.2)	**3**	**3**	382	382
Long-term debt (current portion)	**266,321**	**228,025**	—	—
Long-term debt	—	—	210,050	180,850

17.3 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.

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

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

17.4 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.

17.5 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.

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

17.6 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 and/or HK dollars. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2015.

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 and restricted cash held at December 31, 2015 would have been impacted by approximately $0.2 million and the carrying value of the long term debt at December 31, 2015 would have been impacted by approximately $2.8 million. At December 31, 2015, the Company held approximately US$10.4 million of restricted cash and US$2.1 million of cash (or $14.4 million of restricted cash and $2.8 million of cash, respectively), using the December 31, 2015 exchange rate of 1.3840, as cash, restricted cash and cash equivalents in the Company's US bank account.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at December 31, 2015 would have been impacted by approximately $Nil. At December 31, 2015, the Company held, after recent equity closings, approximately HKD$12.6 million or $2.3 million using the December 31, 2015 exchange rate of 5.6003, as cash in the Company's HKD bank account.

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

	2015	2014
Unrealized foreign exchange loss/(gain) on translation of:		
U.S. denominated senior secured notes	**$ 42,004**	11,117
Foreign currency denominated cash balances	**(7,506)**	(2,702)
Foreign currency denominated accounts payable balances	**(24)**	557
	34,474	8,972
Realized foreign exchange loss	**1,832**	190
Total foreign exchange loss	**$ 36,306**	9,162

17.7 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, 2015, the Company does not have any floating rate debt.

The Company's cash and cash equivalents consists of cash held in bank accounts that earn interest at varying interest rates. The Company's restricted cash and cash equivalents consists of cash held in a treasury note within a restricted escrow account. 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, 2015, the interest rate earned on cash was between 0.01% and 1.30%.

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

17.8 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, 2015, the Company's receivables consisted of 45% from Goods and Services Tax receivable, 39% joint interest billing receivable and 16% from other receivables (December 31, 2014 – 45% from Goods and Services Tax receivable, 37% from joint interest billing receivable and 18% from other receivables).

The Company's unrestricted cash as at December 31, 2015, is held in accounts with third party financial institutions and consists of invested cash and cash in the Company's operating accounts.

At December 31, 2015, there was no allowance for doubtful 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 (December 31, 2014 - $Nil). The Company considers any amounts outstanding in excess of 30 days past due.

17.9 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. At December 31, 2015, the Company had negative working capital of $286.1 million and an accumulated deficit of $633.8 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 refinance current debt and 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.

The timing of cash outflows (excluding interest) relating to financial liabilities as at December 31, 2015, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	$ 47,611	$ 47,611	$ —
Debt[1]	276,800	276,800	—
	$ 324,411	$ 324,411	$ —

1. Principal amount of Notes based on the year end exchange rate of $1 US = 1.3840 CDN

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

18. RELATED PARTY TRANSACTIONS

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

18.1 Trading transactions

During the year ended December 31, 2014 the Company had transactions, totaling $1.5 million, with a law firm in which Mr. Turnbull, a former director of the Company, is a partner. Mr. Turnbull was a director until the time of his resignation on November 28, 2014. On this date the law firm ceased to be a related party of the Company. 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.

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13.1), and he has also loaned the Company funds on an unsecured basis (Note 22).

18.2 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,	**2015**	2014
Directors' fees[1]	**$ 571**	$ 566
Salaries and allowances	**3,050**	1,515
Share-based compensation	**878**	1,812
Consulting fees	**—**	332
	$ 4,499	$ 4,225

1. For the year ended December 31, 2015, this number reflects accrued fees of $0.7 million. Refer to the appendix A2 for additional director fees disclosure.

19. OPERATING LEASE ARRANGEMENTS

Payments recognised as an expense

For the years ended December 31,	**2015**	2014
Minimum lease payments	**$ 2,231**	$ 2,246

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

20. COMMITMENTS AND CONTINGENCIES

As at December 31, 2015, the Company's commitments are as follows:

	Total	2016	2017	2018	2019	Thereafter
Repayment of long-term debt[1]	$ 276,800	276,800	—	—	—	—
Interest payments on long-term debt[2]	27,680	27,680	—	—	—	—
Redemption premium[3]	20,201	20,201	—	—	—	—
Drilling, other equipment and contracts	6,785	6,468	233	84	—	—
Lease rentals[4]	8,844	1,194	1,176	1,176	1,169	4,129
Office leases	9,196	3,058	2,913	2,580	645	—
	$ 349,506	335,401	4,322	3,840	1,814	4,129

1. Principal amount of Notes based on the year exchange rate of $1US=1.3840 CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not been satisfied.

2. Based on 10% per annum and a maturity date of August, 2016, at the year exchange rate of $1US=1.3840 CDN.

3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2016. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2016. Using the year exchange rate of $1US=1.3840 CDN this premium amounts to $20,201. At December 31, 2015, the Company had the option to redeem the Notes at 2.256% of the aggregate principal amount of the Notes outstanding which amounts to $6,245 using the year end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2016 maturity date, following the optional redemption schedule set out in the Notes indenture.

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

During 2014, the Company 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 Notes (Note 10), to enable it to meet obligations and continue developing its business. The Company obtained discharge of outstanding liens by October 7, 2014, thus satisfying the condition in the Notes (Note 10). From time to time, the Company receives liens or claims on accounts payable balances. Sunshine continues to work toward resolution of any 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 the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. Management considers the Action to be unfounded. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2015 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.

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

21. SUPPLEMENTAL CASH FLOW DISCLOSURES

Non-cash transactions

For the years ended December 31, 2015, and December 31, 2014, the Company had the following non-cash transactions:

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

Supplemental cash flow disclosures

For the year ended December 31,	**2015**	2014
Cash provided by (used in):		
Trade and other receivables	**$ (340)**	$ (619)
Prepaid expenses and deposits	**(2,276)**	(5,187)
Trade and other payables	**16,363**	(92,552)
	$ 13,747	$ (98,358)
Changes in non-cash working capital relating to:		
Operating activities		
Trade and other receivables	**$ (214)**	$ (1,108)
Prepaid expenses and deposits	**(2,276)**	(5,187)
Trade and other payables	**5,204**	(5,065)
	$ 2,714	$ (11,360)
Investing activities		
Property, plant and equipment	**9,151**	(94,424)
	$ 9,151	$ (94,424)
Financing activities		
Share issue costs and finance costs	**$ 1,882**	$ 7,426
	$ 13,747	$ (98,358)

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

Additional supplemental cash flow disclosures

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

For the year ended December 31,	**2015**	2014
Reconciliation of:		
Exploration and evaluation assets	**$ 1,375**	$ 5,232
Changes in non-cash working capital	—	—
Payments for exploration and evaluation assets	**$ 1,375**	$ 5,232
Reconciliation of:		
Property, plant and equipment	**$ 153,367**	$ 46,554
Changes in non-cash working capital	**(9,151)**	94,424
Payments for property, plant and equipment	**$ 144,216**	$ 140,978
Reconciliation of:		
Share issue costs and finance costs	**$ 32,417**	$ 11,504
Changes in non-cash working capital	**(1,882)**	(7,426)
Payments for share issue costs and finance costs	**$ 30,535**	$ 4,078

For the year ended December 31, 2015, share issue costs were $196 (2014 - $869) and finance costs were $30,339 (2014 - $3,209).

22. SUBSEQUENT EVENTS

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan is considered Permitted Debt under the Company's Notes as long as it does not exceed US$5.0 million. The Loan has an interest rate of 6.0% per annum , can be drawn up to HK$38.0 million and requires repayment in full within six months from the date of the receipt of the Loan. The Company made several advances on the Loan from January 27, 2016 to March 24, 2016 and the loan is now drawn at HK$ 32.4 million (approximately $5.8 million).

On February 5, 2016, the Company confirmed that the maturity date for the Notes is now August 1, 2016, as the Company did not complete the requirements to maintain an August 1, 2017 maturity date by the applicable deadline. The Company paid the required interest on the Notes on February 1, 2016.

During the first quarter of 2016, all 132,910,941 remaining share purchase warrants expired.

On March 1, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Shares (HK $310,140,000 or approximately CDN $53.5 million) subscribed by Prime Union to May 2, 2016 from March 2, 2016. The remaining subscribed Shares can be closed in one or more tranches with the last tranche closing no later than May 2, 2016.

On March 15, 2016 in Hong Kong (March 15, 2016 in Calgary), the Corporation entered into a subscription agreement (the "Subscription Agreement") with Bright Hope Global Investments Limited ("Bright Hope Global") under which Bright Hope Global agreed to subscribe for a total of 558,823,500 Class "A" Common Voting Shares of the Corporation ("Common Shares") at a price of HK$ 0.34 per Common Share or approximately CDN$ 0.058 per Common Share at current exchange rates, which in the aggregate amounts to gross proceeds of HK$ 189,999,990 (approximately CDN$ 32,576,639 at current exchange rates) (the "Placement").

Completion of the Placement is subject to the fulfillment (or waiver) of the following conditions:

1. The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") approving the listing of the Common Shares to be issued pursuant to the Placement;

2. Compliance of the Placement with the requirements under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Code on Takeovers and Mergers (where applicable); and

3. The receipt of all other required regulatory approvals.

Completion of the Placement will take place on or before May 14, 2016 (or such other date as the Corporation may choose) (the "Closing Date"). In the event that (i) the Corporation suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Corporation shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Corporation takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Corporation and the Subscriber under the Subscription Agreement shall immediately and unconditionally cease and be null and void. There can be no assurance that the Placement will close as described.

The Company had a one year Irrevocable Standby Letter of Credit ("Letter") of $1.6 million issued on July 31, 2015. The Letter is due to mature on July 31, 2016 and is secured by a deposit held with a financial institution. The Company agreed with the vendor to draw on the Letter in order to settle past due amounts. Total amounts drawn in 2016 totalled $0.8 million.

23. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 29, 2016.

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 Sunshine Hong Kong and Boxian.

	2015	2014
Non-current assets		
Property, plant and equipment	$ 650,929	$ 701,735
Exploration and evaluation assets	290,945	379,403
Restricted cash and cash equivalents	—	11,601
Amounts due from subsidiary	3,650	1,530
	945,524	1,094,269
Current assets		
Trade and other receivables	2,253	1,913
Prepaid expenses and deposits	8,119	5,843
Cash	5,559	136,087
Restricted cash and cash equivalents	14,389	23,467
	30,320	167,310
Current liabilities		
Trade and other payables	47,575	28,074
Provisions	3,492	834
Share purchase warrants	3	109
Amount due to subsidiary	2,692	1,567
Debt	266,321	—
	320,083	30,584
Net current assets	(289,763)	136,726
Total assets less current liabilities	655,761	1,230,995
Non-current liabilities		
Share purchase warrants	—	273
Long term debt	—	210,050
Provisions	51,656	48,650
	51,656	258,973
Net assets	$ 604,105	$ 972,022
Capital and reserves		
Share capital	$ 1,174,987	$ 1,139,022
Reserve for share-based compensation	62,910	60,658
Deficit	(633,792)	(227,658)
	$ 604,105	$ 972,022

A2. Directors' emoluments and other staff costs

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

For the year ended December 31,	2015	2014
Directors' emoluments		
Directors' fees	$ 571	$ 566
Salaries and allowances	1,812	557
Share-based compensation	668	2,158
	3,051	3,281
Other staff costs		
Salaries and other benefits	13,077	11,934
Contribution to retirement benefit scheme	291	292
Share-based compensation	1,638	1,313
	15,006	13,539
Total staff costs, including directors' emoluments	18,057	16,820
Less: staff costs capitalized to qualifying assets	5,748	6,937
	$ 12,309	$ 9,883

Details of the Directors' emoluments are as follows:

A3. Directors' emoluments

	For the year ended December 31, 2015					
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation[8]	Performance related incentive payments	Total
Michael Hibberd[1]	$ 88	$ 279	$ —	$ 299	$ —	$ 666
Tseung Hok Ming	58	—	—	23	—	81
Tingan Liu[2]	(140)	—	—	—	—	(140)
Haotian Li[3]	38	—	—	(2)	—	36
Raymond Fong	71	—	—	23	—	94
Robert Herdman	81	—	—	23	—	104
Gerald Stevenson	79	—	—	23	—	102
Jimmy Hu[4]	47	—	—	—	—	47
Zhefei Song	66	—	—	—	—	66
Hong Luo[5]	61	227	—	64	—	352
Qi Jiang	66	1,306	—	215	—	1,587
Kwok Ping Sun[6]	47	—	—	—	—	47
Jianzong Chen[7]	9	—	—	—	—	9
	$ 571	$ 1,812	$ —	$ 668	$ —	$ 3,051

1. Mr. Hibberd commenced as a non-executive chairman on June 28, 2015.

2. Upon receipt of a waiver from Mr. Liu, all prior period director entitlement accruals were reversed. Mr. Liu resigned as a director on June 24, 2015.

3. Mr. Li was a director until the time of his resignation on October 22, 2015.

4. Mr. Hu commenced as a non-executive director on June 28, 2015.

5. Mr. Luo commenced as Chief Executive Officer and an executive director on July 17, 2015.

6. Mr. Sun commenced as a non-executive director on May 27, 2015, and he commenced as executive chairman on June 28, 2015.

7. Mr. Chen commenced as a non-executive director on October 22, 2015.

8. For the year ended December 31, 2015, no options have been granted to Directors.

	For the year ended December 31, 2014					
Name of Director	Directors' fees[7]	Salaries and allowances[7]	Contribution to retirement benefits scheme	Share-based compensation[7]	Performance related incentive payments	Total
Michael Hibberd	$ 67	$ 391	$ —	$ 846	$ —	$ 1,304
Songning Shen[1]	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[2]	32	—	—	(42)	—	(10)
Greg Turnbull[3]	40	—	—	(20)	—	20
Robert Herdman	69	—	—	68	—	137
Gerald Stevenson	65	—	—	68	—	133
Jin Hu[4]	27	—	—	5	—	32
Zhefei Song[4]	31	—	—	—	—	31
Hong Luo[5]	6	—	—	48	—	54
Qi Jiang[6]	4	—	—	160	—	164
	$ 566	$ 557	$ —	$ 2,158	$ —	$ 3,281

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).

A4. Five highest paid individuals

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

For the year ended December 31,	2015	2014
HK$ nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	—	—
HK$1,500,001 to HK$2,000,000	—	1
HK$2,000,001 to HK$2,500,000	2	—
HK$2,500,001 to HK$3,000,000	—	—
HK$3,000,001 to HK$3,500,000	—	2
HK$3,500,001 to HK$4,000,000	—	—
HK$4,000,001 to HK$4,500,000	2	—
HK$4,500,001 to HK$5,000,000	—	—
HK$5,000,001 to HK$5,500,000	—	—
HK$5,500,001 to HK$6,000,000	—	—
HK$6,000,001 to HK$6,500,000	—	—
HK$6,500,001 to HK$7,000,000	—	—
>HK$7,000,000	1	2

For the year ended December 31, 2015, the conversion factor used in the above table is 1C$ = 6.07 HK$ (year ended December 31, 2014, 1C$ = 7.02 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, 2015 (for the year ended December 31, 2014 there were two directors and three key management executives). Since the directors' emoluments are disclosed above, the compensation of the three key management executives for the Company is as follows:

For the year ended December 31,	2015	2014
Salaries and other benefits	$ 1,233	$ 988
Contributions to retirement benefits scheme	5	5
Share-based compensation	210	146
	$ 1,488	$ 1,139

A5. Senior management remuneration by band

The emoluments fell within the following bands:

For the year ended December 31,	2015	2014
HK$ nil to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	1	2
HK$2,000,001 to HK$2,500,000	2	—
HK$2,500,001 to HK$3,000,000	1	—
HK$3,000,001 to HK$3,500,000	—	2
HK$3,500,001 to HK$4,000,000	—	—
HK$4,000,001 to HK$4,500,000	1	—
HK$4,500,001 to HK$5,000,000	—	—
HK$5,000,001 to HK$5,500,000	—	—
HK$5,500,001 to HK$6,000,000	—	—
HK$6,000,001 to HK$6,500,000	—	—
HK$6,500,001 to HK$7,000,000	—	—
>HK$7,000,000	1	2

For the year ended December 31, 2015, the conversion factor used in the above table is 1C$ = 6.07 HK$ (year ended December 31, 2014, 1C$ = 7.02 HK$)

The table above includes the remuneration for the executive directors and executive officers of the Company. As at December 31, 2015, $0.1 million (2014 - $0.3 million) was the total payable to three members (2014 – 4 members) of senior management and this was included in trade and accrued liabilities. Two executive directors ceased to be executive directors on June 28, 2015.

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Executive Directors:
Mr. Kwok Ping Sun *(Chairman)*
Mr. Hong Luo
Dr. Qi Jiang

Non-Executive Directors:
Mr. Michael J. Hibberd *(Vice-Chairman)*
Mr. Hok Ming Tseung
Mr. Jianzhong Chen
Mr. Jin (Jimmy) Hu

Independent Non-Executive Directors:
Mr. Raymond S. Fong
Mr. Robert J. Herdman
Mr. Gerald F. Stevenson
Mr. Zhefei (Bill) Song

JOINT COMPANY SECRETARIES:

Mr. Wing Kai Yuen
Mr. Richard W. Pawluk

AUTHORIZED REPRESENTATIVES:

Mr. Wing Kai Yuen

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. Kwok Ping Sun
Mr. Raymond S. Fong
Mr. Zhefei (Bill) Song

RESERVES COMMITTEE:

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

CORPORATE GOVERNANCE COMMITTEE:

Mr. Kwok Ping Sun *(Chairman)*
Mr. Michael J. Hibberd
Mr. Raymond S. Fong
Mr. Hok Ming Tseung

CORPORATE HEADQUARTERS:

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GLJ Petroleum Consultants Limited

PRINCIPAL BANKERS:

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

LEGAL ADVISERS:

McCarthy Tétrault LLP
Herbert Smith Freehills LLP

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PLACE OF SHARE LISTING AND STOCK CODE:

The Stock Exchange of Hong Kong Limited: 2012

SUNSHINE OILSANDS LTD.