阳光油砂
SUNSHINE OILSANDS LTD.

SUNSHINE OILSANDS LTD.
陽光油砂有限公司*

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

(HKEX: 2012)

ANNUAL REPORT 2016

* For identification purpose only

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ON THE COVER

In 2016, the West Ells Phase I (5,000 bbl/d) SAGD commercial project was completed. The central processing facility includes oil and water treatment, steam and power generation, oil and water storage, an oil trucking facility, source water wells and other associated infrastructure. The plant supplies steam to the well pad (not shown in the picture) and processes all fluids produced from the SAGD wells. The central processing facility and wells in the pad have been on operation since September 2015. Phase II, designed for an additional 5,000 bbl/d of production, has been partially constructed. Some of the major equipment for Phase II has been purchased and all well pairs have been drilled for Phase II.

SUMMARY OF AUDITED FINANCIAL FIGURES

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As at and for the year ended December 31	**2016**	2015	2014	2013	2012
	($000s)	($000s)	($000s)	($000s)	($000s)
Cash and cash equivalents	**13,635**	6,545	136,097	15,854	282,231
Current restricted cash and cash equivalents	**—**	14,389	23,467	—	—
Non-current restricted cash and cash equivalents	**—**	—	11,601	—	—
Exploration and evaluation assets	**291,716**	290,945	379,403	376,912	366,668
Property, plant and equipment	**684,531**	650,930	701,736	634,672	327,971
Total liabilities	**390,135**	369,083	288,044	148,415	108,650
Shareholders' equity	**607,455**	604,098	972,016	880,973	871,076
Net loss	**73,310**	406,135	26,767	32,780	61,728
Net loss per share ($ per basic and diluted share)	**0.02**	0.10	0.01	0.01	0.02

In 2016, Sunshine (the "Corporation") continued to focus on evaluating and developing its oil sands assets.

During 2016:

- Construction of Phase I was completed;
- All eight West Ells Phase I well pairs were placed on early SAGD production;
- All eight downhole pump installations were completed and placed into operating mode; and
- The Corporation received its Total Asset Integrity Management Certificate from the Pressure Equipment Safety Authority in Alberta.

On February 28, 2017, the Corporation declared commerciality of the West Ells Project. Effective March 1, 2017, the Corporation will record revenues, expenses and depletion of the West Ells Project under IFRS. When financing is available, the Corporation is planning to continue with West Ells Phase II construction to add an additional 5,000 barrels per day of production.

SUNSHINE'S CAPITAL RAISING ACTIVITIES

On September 12, 2016, the Corporation and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of US$22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Corporation for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Corporation; (i) budget approval rights; and (j) requirements that the Corporation raise additional capital and provide additional security for the Notes.

In late October of 2017, in view of the importance of supporting active operations at West Ells while it examined the potential to progress the Memorandum of Understanding with Nobao Energy Holding (China) Corporation Limited to definitive terms and agreements, the Corporation initiated discussions with the Forbearing Holders about altering the timing and the form of payment of the yield maintenance premium.

On March 21, 2017, the Corporation and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement Agreement (the "FRA"). The principal payment terms of the FRA include: (i) Payment of 20% of the Yield Maintenance Premium (the "YMP") originally due on August 1, 2016 by cash; (ii) 80% of the YMP will be repaid on August 1, 2017 as the bond matures; (iii) Payment of 20% accrued interest and forbearance fee fell due on February 1, 2017 by cash and the remaining amount to be repaid on August 1, 2017 as the bond matures; and (iv) Regarding the USD22.5 million of principal repayment which fell due on February 1, 2017, both parties agreed to defer the repayment as follows: USD5.0 million and USD10.0 million are to be repaid by the end of April 2017 and June 2017 respectively. The remaining amount shall be repaid on or before the maturity date of the bond, i.e. August 1, 2017. In addition, the Corporation and certain noteholders entered into a Note Exchange Agreement (the "NEA") whereby the Corporation agreed to repay bond principal of up to USD8.9 million by issuance of shares.

The Board believes the entering into of the FRA and NEA was in the best interests of the Corporation and its shareholders as a whole as the FRA and NEA will provide the Corporation with additional time to repay or refinance the indebtedness owed by the Corporation to the Noteholders under the Notes. The Corporation is not aware that the Noteholders intend to enforce their rights in respect of the Notes.

General mandate

Reference is made to the announcements of the Corporation dated March 16, 2016, April 28, 2016, May 16, 2016, June 22, 2016, July 4, 2016, September 1, 2016, October 24, 2016 and October 31, 2016 (all Hong Kong time) (collectively, the "**Bright Hope Announcements**") in relation to the proposed issue of a total of 558,823,500 new Class "A" Common Voting Shares of the Corporation ("**Common Shares**") to Bright Hope Global Investments Limited ("**Bright Hope**") under the General Mandate.

On March 15, 2016, the Corporation entered into a subscription agreement with Bright Hope under which Bright Hope agreed to subscribe for a total of 558,823,500 Common Shares at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$190.0 million (approximately CDN$30.9 million) (the "**Bright Hope Placement**").

During year ended December 31, 2016, the Corporation completed the closing of 308,575,588 Common Shares (the "**Bright Hope Closing**") under the General Mandate at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Under the Bright Hope Closing, the Corporation received total gross proceeds of HK$104,915,700 (approximately CDN$17.6 million in total).

On October 31, 2016, the Corporation announced an extension of the subscription of the remaining 250,247,912 Common Shares (approximately HK$85,084,290 or CDN$14.69 million) subscribed for by Bright Hope ("**Further Extension**") to no later than January 31, 2017.

On November 21, 2016, the Corporation announced that the Further Extension granted to Bright Hope has been mutually terminated as the Corporation was informed by Stock Exchange that the Further Extension did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the Corporation cannot issue those remaining Common Shares under the Private Placement under the General Mandate.

Reference is made to the announcements of the Corporation dated on December 7, 2016 and December 14, 2016 (Hong Kong time) in relation to the proposed issue of a total of 50,000,000 new Class "A" Common Voting Shares of the Corporation to a third party ("**Third Party**") under the General Mandate.

On December 7, 2016, the Corporation entered into a subscription agreement with a third party for a total of 50,000,000 Common Shares at a price of HK$0.321 per share (approximately CDN$0.054 per Common Share), for gross proceeds of HK$16.05 million (approximately CDN$2.7 million). On December 14, 2016 the Corporation completed the closing of this subscription agreement. In addition, a placing commission of HK$120,375 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

Reference is made to the announcements of the Corporation dated on December 28, 2016 and December 29, 2016 (all Hong Kong time) in relation to the proposed issue of a total of 150,000,000 new Common Shares of the Corporation to Zhengwei International Investment and Management Co. Ltd. ("**Zhengwei**") under the General Mandate.

On December 28, 2016, the Corporation entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited under which Zhengwei agreed to subscribe for a total of 150,000,000 Common Shares of the Corporation at a price of HK$0.29 per Common Share or approximately CDN$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HK$43.5 million (approximately CDN$7.6 million).

Subsequent to December 31, 2016, on January 17, 2017, the Corporation entered into a subscription agreement for a total of 60,000,000 Common Shares at a price of HK$0.262 per share (approximately CDN$0.045 per Common Share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Corporation completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On March 16, 2017 the Corporation entered into a subscription agreement for a total of 247,350,000 Common Shares at a price of HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million). On March 28, 2017, Zhengwei has subscribed 40,000,000 Common Shares, net proceeds received was approximately HK$11.6 million.

Specific mandate

Reference is made to the announcements of the Corporation dated June 1, 2015, July 28, 2015 , August 21, 2015, October 1, 2015, November 2, 2015, December 6, 2015, March 2, 2016, May 3, 2016, June 3, 2016, June 23, 2016, July 21, 2016, August 1, 2016, August 4, 2016 and October 24 (all Hong Kong time) (collectively, the "**Prime Union Announcement**") and the circular of the Corporation dated June 22, 2015 (the "**Circular**") in relation to, among other matters, the proposed issue of new Common Shares under the Specific Mandate (as defined in the Prime Union Announcement) and the connected transactions involving subscriptions for new Common Shares by connected persons. Unless the context requires otherwise, terms use herein shall have the same meanings as those defined in the Prime Union Announcement and the Circular.

During year ended December 31, 2016, the Corporation completed the closing the remaining of 413,520,000 Common Shares (the "**Prime Union Partial Closing**") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under the Prime Union Partial Closing, the Corporation received total gross proceeds of HK$310,140,000 (approximately CDN$52.3 million).

SUMMARY OF FINANCIAL FIGURES

As at December 31, 2016 and December 31, 2015, the Corporation notes the following selected balance sheet figures.

(Canadian $000s)	**December 31, 2016**	December 31, 2015
Cash	**$ 13,635**	$ 6,545
Current restricted cash and cash equivalents	**—**	14,389
Prepaid expense and deposits	**5,054**	8,119
Exploration and evaluation assets	**291,716**	290,945
Property, plant and equipment	**684,531**	650,930
Total liabilities	**390,135**	369,083
Shareholders' equity	**607,455**	604,098

For the fourth quarter of 2016, the Corporation had a net loss of $23.2 million, compared to $325.8 million for the same period in 2015, representing a net loss per share for each respective year of $0.004 and $0.080. For the year ended December 31, 2016, the Corporation had a net loss of $73.3 million compared to $406.1 million for the year ended December 31, 2015, representing a net loss per share for each respective year of $0.02 and $0.10.

RESERVES AND RESOURCES

On March 21, 2017, the Corporation announced the results of its reserves and resources evaluations, effective as at December 31, 2016. For a full discussion of the Corporation's reserves and resources data and other oil and gas information, see section "*Statement of Reserves Data and Other Oil and Natural Gas Information*" and "*The Corporation's Contingent Resources Data*" in Appendix A of the Corporation's Annual Information Form (AIF) for the year ended December 31, 2016, a copy of which is available on the Hong Kong Stock Exchange's 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, 2016, were completed by independent evaluators, GLJ Petroleum Consultants and DeGolyer and MacNaughton Canada Limited. The following tables summarize the overall reserves information as well as contingent resource volumes.

	Reserves (Bitumen)					
	Proved (1P)		Proved Plus Probable (2P)		Proved Plus Probable Plus Possible (3P)	
	Gross (MMbbls)	PV10% ($MM)	Gross (MMbbls)	PV10% ($MM)	Gross (MMbbls)	PV10% ($MM)
Total	86	95	276	433	379	816

In 2016, West Ells, the Corporation's first SAGD commercial project was placed on production. The volume of West Ells Proved Reserves was therefore revised for production of bitumen during the year. In the 2016 GLJ report, the forecasted WTI price was lowered by as much as US$8/bbl compared to 2015's pricing assumptions. For this reason, the assessment of Thickwood became sub economic. As a result there were no reserves volumes assigned to Thickwood. The 2P and 3P volumes of Thickwood were recategorized to Best Estimate Risked Contingent Resources. In 2016, the properties that had assigned reserves volumes were West Ells and Legend Lake. No exploratory or development wells were completed by the Corporation in 2016.

In 2016, the Harper project was remapped and Best Estimate Risked Contingent Resources were reassigned to different sub classes of Best Estimate Contingent Resources. The Corporation's total assessed Best Estimate Risked Contingent Resources (Development Pending, Development Unclarified and Development On Hold) as at December 31, 2016 are as follows:

Sub Class	Best Estimate Risked Contingent Resources Gross (MMbbls)
Total Development Pending	5
Total Development on Hold	232
Total Development Unclarified	1,109

Values assigned to Sunshine's Best Estimate Risked Contingent Resources were reduced due to lower forecasted WTI prices, remapping of the Harper property and expected delays in development timing.

In connection with the independent evaluators' assessments, the following is worth noting. The average forecasted WTI price assumed for 2017 is US$55/bbl and increases at a much slower pace compared to 2015. Also, the forecasted Canadian dollar is at US$0.75 for 2017 but it is assumed to be at US$0.85 in future years.

INTERNATIONAL AWARDS

The Corporation has received the following awards in recognition of its stable business growth and management capabilities:

- "Best Corporate Social Responsibility, Hong Kong Listed Corporation for 2016" awarded in the "Golden Hong Kong Stocks Poll" Awards ceremony; and

- 2017 Onshore Excellence Award, awarded by Acquisition International Magazine.

2017 OUTLOOK

As at the date of this release, all eight West Ells Phase I well pairs are on early SAGD production. The Corporation is fully committed to advancing its corporate initiatives and to expanding its development and production initiatives.

ACKNOWLEDGEMENTS

We would like to thank our Board of Directors, our staff and our stakeholders for their continuing support in advancing our corporate initiatives during a challenging commodity price cycle. We intend to ensure that Phase I 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 Phase II expansion plans in West Ells and in our other project areas.

"Kwok Ping Sun"	**"Hong Luo"**	**"Qiping Men"**
Chairman of the Board	*Executive Director, CEO*	*Executive Director, President and COO*

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE CHAIRMAN AND DIRECTOR

Mr. Kwok Ping Sun ("Mr. Sun"), aged 52, 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 J. Hibberd ("Mr. Hibberd"), aged 61, 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.

EXECUTIVE DIRECTORS ("EDs")

Mr. Hong Luo ("Mr. Luo"), aged 54, 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 54, became an Executive Director on January 5, 2015. He was appointed as Chief Technology Officer on October 20, 2016. He was appointed as President and Chief Operating Officer from January 5, 2015 to October 19, 2016. 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.

Mr. Qiping Men ("Mr. Men"), age 52, became an Executive Director on June 30, 2016. He was appointed as President and Chief Operations Officer of the Corporation on October 20, 2016. He was appointed as Chief Financial Officer of the Corporation from December 18, 2015 to October 19, 2016. 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.

NON-EXECUTIVE DIRECTORS ("NEDs")

Ms. Linna Liu ("Ms. Liu"), aged 39, is a Non-Executive Director appointed by the Board on April 6, 2017. Ms. Liu is currently Head of NPA Investment Division of Bank of China Group Investment Limited ("BOCGI"). Prior to joining BOCGI, from 2000 to 2015, Ms. Liu held a number of positions in Bank of China Headquarters and in its New York Branch. Ms. Liu has over 16 years of experience in Banking and Financing. Ms. Liu graduated from Peking University and Columbia University and holds Bachelors and Master degrees.

Ms. Xijuan Jiang ("Ms. Jiang") age 51, became a Non-Executive Director on June 30, 2016. She was a senior engineer with 25 years of experience in industrial applications. Ms. Jiang is the recipient of numerous design awards, primarily in respect of heating and ventilation systems. Ms. Jiang has been the Vice President and Chief Engineer of Nuoxin Energy Technology (Shanghai) Co. Ltd. since November 2012. Prior thereto, she was the Chief Engineer (Water and Sewer) at the Architecture Branch of Shougang Design Institute. Ms. Jiang obtained a Bachelor degree from the Xi'an University of Architecture and Technology in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDs")

Mr. Gerald F. Stevenson ("Mr. Stevenson"), aged 73, 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. Raymond Shengti Fong ("Mr. Fong"), aged 70, 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 both Ontario and Alberta, Canada.

Ms. Joanne Yan ("Ms. Yan"), age 59, is an Independent Non-Executive Director appointed on June 30, 2016. Ms. Yan has over twenty years of experience advising, directing and managing publicly listed companies in North America. She has been a leading director, a corporate governance committee chair and audit committee member of numerous companies listed on the TSX Venture Exchange and the TSX. She also has been active in the cross border investment and M&A space and is familiar with the business culture and operations of North American and Chinese businesses.

Since September 1994, Ms. Yan has been President of Joyco Consulting Services Inc., a wholly-owned private company based in Vancouver, BC, providing business consulting services particularly with respect to mergers and acquisitions and related public and private financings. Ms. Yan is currently a director of Hanwei Energy Services Corp., a TSX listed company that manufactures and sells high-pressure fibreglass reinforced plastic pipes for international oil & gas and infrastructure industries in addition to producing oil & gas in Canada. From June 2006 to November 2013, Ms. Yan was the President and a director of Brazil Resources Inc. (formerly, Brazilian Gold Corp.), a resource exploration company with international scope, which is listed on the TSX Venture Exchange (trading symbol BRI). Ms. Yan was a director of New Era Minerals Inc. from June 2014 to April 2016, Grande West Corp. from November 2013 to May 2014, and of Archer Petroleum Corp. from April 2013 to October 2014.

Mr. Yi He ("Mr. He"), age 44, is an Independent Non-Executive Director appointed on June 30, 2016. He has worked in the financial industry for more than 22 years and held various senior management roles in several global banks in China. In 2012, Mr. He was appointed as Chief Executive Officer of Nomura China Bank and led all China related banking businesses. From 2008 to 2012, he was in charge of China related banking business for Barclays Bank as the General Manager of the Shanghai Branch. Prior thereto, Mr. He led the global markets business for Australia and New Zealand Banking Corporations Limited and was the Deputy General Manager of ANZ China. Mr. He began his career with Credit Agricole China in 1994 and joined First Sino Bank as the Head of Treasury in 1997.

Mr. He has been an independent non-executive director of Kai Yuan Holding Limited Company (SEHK code: 01215) since 2011 and is member of the audit committee, the remuneration committee, and the nomination committee of Kai Yuan Holding Limited Company.

Mr. He founded Yaoxin Asset Management Company in early 2015, which mainly focuses on financial related consulting. In addition, Mr. He holds a Master Degree in Economics from Fudan University of China and also is a Certified Professional Accountant in China.

SENIOR MANAGEMENT

Pui Yun Gloria Ho ("Ms. Ho"), was appointed as Chief Financial Officer of the Corporation on November 1, 2016. Ms. Ho has extensive experience in investment, risk management, corporate banking and finance. Prior to joining the Corporation, she worked in equity research, credit analysis, capital strategy, funds management and auditing in several international institutions and most recently as the Chief Executive of a reputable Chinese-based asset management firm.

Ms. Ho is a Chartered Accountant, Certified Public Accountant, Chartered Financial Analyst and Chartered Alternative Investment Analyst. Ms. Ho holds a postgraduate certificate in Financial Engineering at Stanford University and a M.Sc. in Finance at the University of Illinois at Urbana-Champaign.

CORPORATE GOVERNANCE REPORT

The Board of Directors ("the Board") of the Corporation is pleased to present this Corporate Governance Report for the year ended December 31, 2016. 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 Corporation 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 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, 2016, 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, the Corporate 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, Chief Technology Officer
Mr. Qiping Men	Executive Director, President and Chief Operating Officer
Mr. Michael J. Hibberd	Non-Executive Director ("NED") and Non-Executive Vice-Chairman
Mr. Xijuan Jiang	Non-Executive Director
Ms. Linna Liu	Non-Executive Director
Mr. Raymond S. Fong	Independent Non-Executive Director ("INED")
Mr. Yi He	Independent Non-Executive Director
Mr. Gerald F. Stevenson	Independent Non-Executive Director
Ms. Joanne Yan	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 Corporate Secretary.

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.

With the exception of the appointment of Ms. Linna Liu on April 6, 2017, each of the Directors was elected on June 30, 2016. 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 reserve 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. Gerald F. Stevenson (Chairman of the audit committee and INED), Mr. Yi He (INED), Mr. Raymond S. Fong (INED) and Ms. Joanne Yan (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, 2016. The following is a summary of the work performed by the audit committee during 2016:

- reviewed the scope of the audit of the consolidated financial statements of the Corporation for the year ended December 31, 2016, as well as the fee proposal for such audits;
- reviewed the condensed interim consolidated financial statements for the periods ended March 31, 2016, June 30, 2016 and September 30, 2016, 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 2016, 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 five members, namely Mr. Kwok Ping Sun (Chairman of the corporate governance committee and ED), Mr. Michael J. Hibberd (NED), Mr. Raymond S. Fong (INED), Mr. Yi (David) He (INED), and Ms. Joanne Yan (INED).

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 is expected to meet at least once a year to discharge its responsibilities.

The corporate governance committee is chaired by the Executive Chairman and is comprised of one Non-Executive Director and three Independent Non-Executive Directors. The Corporation is of the view that the current members of the corporate governance committee are influential and important in setting the key direction of the Corporation at this time. The Corporation also encourages all Board members to sit on at least one of the Corporation's committees. The expertise of the current members of this committee is important to the Corporation.

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 three members, namely Mr. Kwok Ping Sun (Chairman of the compensation committee and ED), Mr. Raymond S. Fong (INED), and Ms. Joanne Yan (INED). The compensation committee currently consists of a majority of Independent Non-Executive Directors and is chaired by an 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, 2016. The following is the attendance record of the Board and committee meetings held during the year, which can be attended either in person or through electronic means of communication:

2016	Board of Directors	Reserve Committee	Audit Committee	Compensation Committee	Corporate Governance Committee
Directors at December 31, 2016					
Mr. Kwok Ping Sun	15/16	—	—	4/4	1/1
Mr. Michael Hibberd	16/16	—	—	—	1/1
Mr. Hong Luo	13/16	—	—	—	—
Dr. Qi Jiang	16/16	4/4	—	—	—
Mr. Qiping Men[1]	9/9	—	—	—	—
Mr. Gerald Stevenson	16/16	4/4	4/4	—	—
Mr. Raymond Fong	15/16	4/4	3/4	3/4	1/1
Mr. Yi He[2]	8/9	—	2/4	1/4	—
Ms. Joanne Yan[3]	9/9	—	2/4	2/4	—
Ms. Xijuan Jiang[4]	9/9	—	—	—	—
Mr. Jianzhong Chen[9]	—	—	—	—	—
2016 Former Directors					
Mr. Tseung Hok Ming[5]	5	—	—	—	1
Mr. Jimmy Hu[6]	2	—	—	—	—
Mr. Robert Herdman[7]	7	—	2	1	—
Mr. Zhefei Song[8]	7	—	2	1	—

Notes:

1. Mr. Men commenced as Executive Director on June 30, 2016.
2. Mr. He commenced as a non-executive director on June 30, 2016.
3. Ms. Yan commenced as a non-executive director on June 30, 2016.
4. Ms. Jiang commenced as a non-executive director on June 30, 2016

5. Mr. Tseung ceased to be a director on June 30, 2016.

6. Mr. Hu ceased to be a director on June 30, 2016.

7. Mr. Herdman ceased to be director on June 30, 2016.

8. Mr. Song ceased to be director on June 30, 2016.

9. Mr. Chen ceased to be director on April 6, 2017.

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

HEALTH, SAFETY AND ENVIRONMENT ("HSE")

Sunshine executives and management believe in the HSE principle of "Safety First" and the Corporation has a good safety record. In 2016, 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 2016.

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

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 $6.8 million for the year ended December 31, 2016 (2015—$3.1 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, 2016 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, 2016 provided by Deloitte, the independent external auditors of the Corporation, were as follows:

Nature of services rendered	Fees paid/ payable
Audit fees	$181,500
Total	$181,500

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; and
- Additional audit procedures related to the 2016 audit.

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, 2016, the Corporation reported a net loss of $73.3 million (2015—$406.1 million). At December 31, 2016, the Corporation had a working capital deficiency of $319.3 million (2015—working capital deficiency of $286.1 million) and an accumulated deficit of $707.1 million (2015—$633.8 million). The Corporation's ability to continue as a going concern is dependent on continuing operation and development in West Ells, marketing bitumen blends at favorable prices, 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 an external consultant to complete testing of the design and effectiveness of its internal control system for the year ended December 31, 2016. The audit plans are discussed and agreed to for each year with the audit committee.

Each year the Audit Committee and 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, 2016. 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 2016 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 Corporation 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, 2016.

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 27, 2017 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 30, 2016 (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, 2015, 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, 2016 (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 30, 2016, 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 4,318,498,104. 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.

DIRECTORS' REPORT

The Board of Directors of the Corporation is pleased to present their report together with the audited consolidated financial statements of the Corporation and its wholly-owned subsidiaries for the year ended December 31, 2016 together with comparative figures for the corresponding period in 2015.

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, 2016, 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, 2016 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, 2016 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, 2016.

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, 2016 are set out in note 8 to the consolidated financial statements.

RESERVES

Details of movements in the Corporation's reserves during the year ended December 31, 2016 are set out in the consolidated statement of changes in shareholders' equity.

DISTRIBUTABLE RESERVES

As at December 31, 2016, reserves available for distribution to shareholders amounted to approximately $607.5 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, 2016.

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, 2016 are set out in the consolidated statement of changes in shareholders' equity in this Annual Report.

DIRECTORS

As at April 21, 2017 , the composition of the Board of Directors was as follows:

Executive Directors

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

Non-Executive Directors

Mr. Michael J. Hibberd *(Vice-Chairman)*
Mr. Xijuan Jiang
Ms. Linna Liu

Independent Non-Executive Directors

Mr. Gerald F. Stevenson
Mr. Raymond S. Fong
Ms. Joanne Yan
Mr. Yi (David) He

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 April 6, 2017, Mr. Jianzhong Chen of BOCGI resigned from the Board and was replaced by Ms. Linna Liu of BOCGI.

On June 30, 2016, the Board of Directors accepted the resignation of Mr. Robert J. Herdman, Mr. Zhefei (Bill) Song, Mr. Jin (Jimmy) Hu and Mr. Hok Ming Tseung as the non-executive directors of the Corporation. Each of Messrs. Herdman, Song and Hu has confirmed that he has no disagreement with the Board. Mr. Tseung has no disagreement with the Board other than the proposed changes to the Board and was the only director of the Corporation that voted against the resolution to approve the proposed slate of directors of the Corporation for the AGM. Save as disclosed above, there are no matters 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 2016 interim report of the Corporation.

Directors' Service Contracts

None of the Directors who are to be proposed for re-election at the 2017 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, 2016.

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, 2016, 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	1,266,202,500	25.31%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	100,344,685	2.01%
Mr. Hong Luo	Sunshine Oilsands Ltd.	N/A	—	0.00%
Dr. Qi Jiang	Sunshine Oilsands Ltd.	Direct	775,350	0.02%
Mr. Qiping Men	Sunshine Oilsands Ltd.	Direct	1,049,541	0.02%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	Direct	184,621	0.00%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct/Indirect	9,250,621	0.18%
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	1,600,000	0.03%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	N/A	—	0.00%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	Direct/Indirect	300,000	0.01%
Mr. Jianzhong Chen	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 ("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 of the Options 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	253,776,410 (representing 5.01% 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 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 2016 are as follows:

Date of grant:	**May 20, 2016**	**August 17, 2016**	**September 23, 2016**	**December 3, 2016**
Exercise price of Options granted:	CDN$0.064 (HK$0.63 equivalent) per share	CDN$0.058 (HK$0.63 equivalent) per share	CDN$0.10 (HK$0.63 equivalent) per share	CDN$0.070 (HK$0.89 equivalent) per share
Number of Options granted:	2,476,232 (representing 0.05% of the issued shares of the Corporation as at the date of the Annual Report).	48,193,873 (representing 0.95% of the issued shares of the Corporation as at the date of the Annual Report).	158,236,861[1] (representing 3.13% of the issued shares of the Corporation as at the date of the Annual Report).	6,632,943 (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	Five (5) years	Five (5) years

Note:

1. 42,111,000 of the stock options were granted to Mr. Kwok Ping Sun conditionally subject to shareholder approval at the next general meeting of shareholders.

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, 2016, 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	46,679,000[1]	18.04%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct	58,439,000	22.59%
Mr. Hong Luo	Sunshine Oilsands Ltd.	Direct	23,000,000	8.89%
Dr. Qi Jiang	Sunshine Oilsands Ltd.	N/A	30,000,000	11.59%
Mr. Qiping Men	Sunshine Oilsands Ltd.	Direct	22,555,556	8.72%
Mr. Gerald Stevenson	Sunshine Oilsands Ltd.	N/A	1,510,000	0.58%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct	1,510,000	0.58%
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	1,000,000	0.39%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	Direct	1,000,000	0.39%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	N/A	1,000,000	0.39%
Mr. Jianzhong Chen	Sunshine Oilsands Ltd.	Direct	1,000,000	0.39%

Note:

1. 42,111,000 of the stock options were granted to Mr. Kwok Ping Sun conditionally subject to shareholder approval at the next general meeting of shareholders.

Save as disclosed above, as at December 31, 2016, 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 2016.

Movements in Stock Options

Name	Outstanding beginning of year	Granted	Exercised	Forfeited	Expired	Outstanding end of year
Mr. Kwok Ping Sun	—	46,679,000[1]	—	—	—	46,679,000
Mr. Michael Hibberd	11,760,000	46,679,000	—	—	—	58,439,000
Mr. Hong Luo	3,000,000	20,000,000	—	—	—	23,000,000
Dr. Qi Jiang	10,000,000	20,000,000	—	—	—	30,000,000
Mr. Qiping Men	2,555,556	20,000,000	—	—	—	22,555,556
Mr. Gerald Stevenson	1,510,000	1,000,000	—	—	(1,000,000)	1,510,000
Mr. Raymond Fong	510,000	1,000,000	—	—	—	1,510,000
Mr. Yi He	—	1,000,000	—	—	—	1,000,000
Ms. Joanne Yan	—	1,000,000	—	—	—	1,000,000
Ms. Xijuan Jiang	—	1,000,000	—	—	—	1,000,000
Mr. Jianzhong Chen	—	1,000,000	—	—	—	1,000,000
Mr. Tseung Hok Ming	1,510,000	—	—	(1,510,000)	—	—
Mr. Jin (Jimmy) Hu	—	—	—	—	—	—
Mr. Robert Herdman	1,510,000	—	—	(510,000)	(1,000,000)	—
Mr. Zhefei (Bill) Song	—	—	—	—	—	—
Sub-total for Directors	32,355,556	159,358,000	—	(2,020,000)	(2,000,000)	187,693,556
Executive Management	3,497,736	5,000,000	—	(3,497,736)	—	5,000,000
Sub-total for other share option holders	60,701,494	51,181,909	(241,666)	(40,025,085)	(4,569,739)	66,046,913
Total	95,554,786	215,539,909	(241,666)	(45,542,821)	(6,569,739)	258,740,469

Note:

1. 42,111,000 of the stock options were granted to Mr. Kwok Ping Sun conditionally subject to shareholder approval at the next general meeting of shareholders.

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, 2016. 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, 2016.

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

As at December 31, 2016, 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	6.29%
Tseung Hok Ming	Beneficial	295,893,656	5.91%
Bright Hope Global Investment Limited	Beneficial	267,353,088	5.34%

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 of Directors, 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, 2016, 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, 2016, the Corporation had senior secured notes that are considered current liabilities. On September 9, 2016, the Corporation and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a forbearance agreement in respect of the Notes (the "Agreement"). Subsequent to December 31, 2016, the Corporation negotiated reinstatement of the Agreement, and on March 21, 2017, the Corporation entered into a Forbearance Reinstatement Agreement ("FRA") with the noteholders. Details of the classification of the notes as a current liability 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, 2016, 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 West Ells nameplate capacity is 5,000bbl/day. With the startup of operations and production of West Ells Project, the Corporation will continuously looking to expand its base of customers to obtain the best possible price for its product.

Suppliers

The largest supplier accounted for 20% of the Corporation's purchases. The five largest suppliers accounted for 54% of the Corporation's purchases for the year ended December 31, 2016.

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 at the time the agreements were entered into); (iv) Mr. Raymond Shengti Fong (an Independent Non-Executive Director); and (v) Mr. Zhefei (Bill) 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 "Message 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 December 31, 2016, 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 discloseable 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

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, 2016 is dated March 21, 2017. 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, 2016. 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 1.35 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2016 was approximately 2.21 billion barrels, a 0.31 billion barrels decrease from the December 31, 2015 resource evaluation. The Company also has 276 million barrels of proved plus probable ("2P") reserves and 379 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2016. 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 approximately 1 million acres of oil sands and P&NG leases, the Company has significant commercial development potential. Phase I (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 completion and operation of the 5,000 bbls/day Phase I commercial West Ells (the "Project"). Once the productivity of the reservoir has been proved, when finance is available, the Company is planning to add an additional 5,000 barrels per day of Phase II to the Project.

As at December 31, 2016, the Company had invested approximately $1.25 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, 2016, the Company had $13.6 million in 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 continuing operation and developing in West Ells, marketing bitumen blends at favorable price, 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, 2016, the Company achieved progress in the following areas:

- Construction of Phase I is substantially completed;
- All 8 well pairs were on early SAGD production;
- All downhole pumps installation were completed and in operation mode;
- The Company has received its certificate from the Pressure Equipment Safety Authority in Alberta, for Sunshine's total asset integrity management.

On February 28, 2017, the Company ceased capitalization of its West Ells Phase I project. Hence, the Company will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project under IFRS effective March 1, 2017. These amounts will then be included in the Statement of Operations and Comprehensive Loss.

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2017. Once the Thickwood and Legend projects are sanctioned for development and construction, additional significant 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 by the joint venture partner 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	**2016**	2015	**2016**	2015
Other income	**$ 8**	$ 155	**$ 48**	$ 1,024
Finance costs	**13,901**	17,857	**62,520**	47,543
Net loss	**23,237**	325,761	**73,310**	406,135
Basic and diluted loss per share	**0.00**	0.08	**0.02**	0.10
Payments for exploration and evaluation assets	**187**	144	**1,344**	1,375
Payments for property, plant and equipment	**8,503**	28,679	**36,145**	153,367

For the three months and year ended December 31, 2016, the Company had a net loss of $23.2 million and $73.3 million compared to $325.8 million and $406.1 million in 2015, respectively. The net loss for the three months and year ended December 31, 2016 respectively, was attributed to a foreign exchange loss of $5.3 million and a gain of $6.8 million, finance costs of $13.9 million and $62.5 million, general administration costs of $2.9 million and $13.2 million, share-based compensation of $1.0 million and $3.8 million, contract provision expense of $Nil and $0.1 million and depreciation and impairment expense of $0.1 million and $0.5 million, offset by interest income of $Nil and $0.1 million.

The net loss for the three months and year ended December 31, 2015 , respectively, was attributed to 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.

	December 31, 2016	December 31, 2015
Cash and cash equivalents	**$ 13,635**	$ 6,545
Current restricted cash and cash equivalents	**—**	14,389
Working capital deficiency	**319,304**	286,121
Total assets	**997,590**	973,181
Total liabilities	**390,135**	369,083

At December 31, 2016, the Company had a cash balance of $13.6 million, excluding restricted cash, compared to $6.5 million at December 31, 2015. The increase of $7.1 million in the cash balance resulted from $24.6 million used for property, plant and equipment, $1.3 million used for exploration and evaluation assets, $3.7 million used in corporate operating activities, $49.5 million for finance costs and a loss of $0.5 million on unrealized foreign exchange on cash held in foreign currencies, which amount were offset by the release of $14.4 million in restricted cash to fund long-term debt interest payments and $72.3 million in net proceeds from the issuance of common shares.

On August 8, 2014, the Company completed an offering of USD $200 million senior secured notes (the "Notes") at an offering price of USD $938.01 per USD $1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD $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 premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016.

On September 9, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Wells Fargo Bank N.A., as administrative agent, and certain bondholders (collectively "the Bondholders") in respect of US$200 million of notes made under a note agreement dated August 8, 2014. Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising the rights and remedies arising from the Company's failure to pay cash interest and principal payments due on August 1, 2016.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD $25 million in principal amount on February 1, 2017. These payments were not made.

Sunshine continues to be in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine has failed to pay the Yield Maintenance Premium ("YMP") of USD $14,596,000 payable on October 16, 2016;
- Sunshine failed to repay USD $25,000,000 of the Senior Notes principal balance payable on February 1, 2017;
- Sunshine failed to pay the 2.50% Forbearance Fees of USD $2,400,000 payable on February 1, 2017, as;
- Sunshine failed to pay accrued interest equal in aggregate to USD $10,000,000 payable on February 1, 2017 as contemplated by the Forbearance Agreement;
- Sunshine did not maintain minimum liquidity levels of USD $10,000,000 as contemplated in the Forbearance Agreement.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") with the Bondholders. The Bondholders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine make the following payments on or before March 27, 2017:

- Payment of USD $2.8 million representing 20% of the YMP originally due on August 1, 2016; and
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017;
- As of March 21, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 21, 2017, which has been paid as of March 21, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD $5.0 million on April 30, 2017, USD $10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On March 21, 2017 Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $8.9 million of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 21, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

The Company has presented the Notes as a current liability on Consolidated Statements of Financial Position as at December 31, 2016.

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,	
	2016	2015	**2016**	2015
Net loss	**$ (23,237)**	$ (325,761)	**$ (73,310)**	$ (406,135)
Finance costs	**13,901**	17,857	**62,520**	47,543
Unrealized foreign exchange (gains)/losses	**5,248**	7,933	**(7,159)**	34,474
Contract provision expense	**—**	36	**75**	6,636
Interest income	**(8)**	(25)	**(43)**	(471)
Gain on sale of assets	**—**	—	**(2)**	(174)
Fair value adjustment on share purchase warrants	**—**	(130)	**(3)**	(379)
Depreciation and impairment	**126**	295,159	**547**	295,593
Share-based compensation	**1,011**	287	**3,803**	1,563
Employee share savings plan	**—**	—	**—**	356
Cash flow used in operations	**$ (2,959)**	$ (4,644)	**$ (13,572)**	$ (20,994)

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, 2016 respectively totalled $3.0 million and $13.6 million compared to $4.6 million and $21.0 million for the same period in 2015. For the three month period ended December 31, 2016, the decrease in cash flow used in operations of $1.7 million compared to the same period in 2015 is primarily due to a decrease of $0.4 million in salaries, consulting and benefits, a $1.3 million decrease in other general and administrative costs. For the year ended December 31, 2016, the decrease in cash flow used in operations of $7.4 million is primarily due to a decrease in salaries, consulting and benefits of $3.7 million, $1.5 million in realized foreign exchange losses, and $2.5 million in other general and administrative costs, offset by a $0.2 million decrease of gain on sale of assets.

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 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Other income	8	12	10	18	155	1,023	(840)	686
Finance costs	13,901	18,606	15,415	14,598	17,857	10,641	9,891	9,154
Net loss for the period	23,237	26,564	20,736	2,773	325,761	30,413	19,122	30,839
Loss per share	0.00	0.01	0.00	0.00	0.08	0.01	0.00	0.01
Capital investments[1]	615	14,191	11,028	1,169	19,051	31,100	51,422	44,018

1. Included payments for exploration and evaluation, property, plant and equipment, and movement in non-cash working capital.

RESULTS OF OPERATIONS

Finance Costs

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	**2016**	2015
Interest expense on senior secured notes	**$ 8,453**	$ 7,131	**$ 28,855**	$ 26,030
Interest expense on shareholder's loan	**—**	—	**136**	—
Amortization of financing transaction costs and discount	**—**	4,261	**10,046**	14,267
Redemption/yield maintenance premium	**4,736**	6,245	**19,055**	6,245
Financing related costs	**338**	243	**3,170**	232
Other interest expense	**287**	(287)	**298**	(286)
Unwinding of discounts on provisions	**87**	264	**960**	1,055
	$ 13,901	$ 17,857	**$ 62,520**	$ 47,543

For the three month period ended December 31, 2016, finance costs decreased by $4.0 million primarily as a result of an decrease of $4.3 million attributed to the amortization of financing transaction costs on the Notes, $1.5 million decrease in premium due to the Notes requiring a premium payment upon redemption after August 31, 2015, offset by an increase of $1.3 million in interest expense on notes and $0.5 million other interest expense compared to the same period in 2015. Finance costs for the year ended December 31, 2016 increased by $15.0 million primarily as a result of an increase of $12.8 million in redemption premium due to the Notes requiring a premium payment upon redemption after August 31, 2015, an increase of $2.8 million of interest expense on senior secured notes, an increase of $2.9 million financing related costs, and $0.7 million all other interest expense offset by a decrease of $4.2 million attributed to the amortization of financing transaction costs on the Notes, compared to the same period in 2015.

GENERAL AND ADMINISTRATIVE COSTS

	For the three months ended December 31,					
	2016			2015		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	$ 2,866	570	2,296	$ 3,570	889	2,681
Rent	512	165	347	531	194	337
Legal and audit	118	—	118	139	—	139
Other	202	31	171	1,459	38	1,421
	$ 3,698	766	2,932	$ 5,699	1,121	4,578

	For the year ended December 31,					
	2016			2015		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	$ 9,486	2,488	6,998	$ 15,751	5,005	10,746
Rent	2,062	707	1,355	2,300	891	1,409
Legal and audit	1,873	—	1,873	1,891	—	1,891
Other	3,052	90	2,962	5,615	143	5,472
	$ 16,473	3,285	13,188	$ 25,557	6,039	19,518

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, 2016 decreased by $1.6 million to $2.9 million compared to $4.6 million for the same period in 2015. The decrease is primarily the result of a decrease in salaries, which includes severance, consulting and benefits of $0.4 million; a decrease in other costs $1.3 million. For the year ended December 31, 2016, general and administrative expenses decreased by $6.3 million to $13.2 million compared to $19.5 million for the same period in 2015. The decrease is primarily a result of a decrease in salaries, consulting and benefits of $3.7 million, a decrease in other costs of $2.5 millions.

During the three months and year ended December 31, 2016, the Company capitalized salaries, consulting and benefits, rent and other general and administrative costs related to capital investment of $0.8 million and $3.3 million compared to $1.1 million and $6.0 million for the same period in 2015, respectively.

CONTRACT PROVISION

As at December 31, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $0.6 million (December 31, 2015—$6.6 million). The $0.6 million represents the maximum obligation required if the drilling rig was not utilized over the remaining term of the contract, which ended in the fourth quarter of 2016. At December 31, 2016, this obligation is broken into a $5.6 million payable and a $0.6 million provision (December 31, 2015—$3.1 million payable and $3.5 million provision). For the year ended December 31, 2016, the Company paid $0.6 million against the obligation.

SHARE-BASED COMPENSATION

	For the three months ended December 31,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	1,093	82	1,011	370	83	287

	For the year ended December 31,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	4,362	559	3,803	2,307	744	1,563

Share-based compensation expense for the three months and year ended December 31, 2016 was $1.0 million and $3.8 million compared to $0.3 million and $1.6 million for the same period in 2015, 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, 2016, the Company capitalized $0.1 million and $0.6 million, compared to $0.1 million and $0.7 million of share-based compensation for the same period in 2015.

OTHER INCOME

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Interest income	$ 8	$ 25	$ 43	$ 471
Gain on sale of assets	—	—	2	174
Fair value adjustment on share purchase warrants	—	130	3	379
	$ 8	$ 155	$ 48	$ 1,024

Other income for the three months ended December 31, 2016 compared to 2015 decreased by $0.1 million and $1.0 million respectively. The change was primarily due to the absence of any gains on sale of assets, lower of interest income and the decrease of the fair value adjustment on share purchase warrants for the same periods in 2015.

DEPRECIATION AND IMPAIRMENT

Depreciation and impairment expense was $0.1 million and $295.2 million for each of the three month periods ended December 31, 2016 and 2015. For year ended December 31, 2016 depreciation and impairment expense was $0.5 million compared to $295.6 million for the same period in 2015. 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, 2016, 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, 2016 reserve report as prepared by its independent reserve engineers. 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, 2016, the Company recognized an impairment of Nil (December 31, 2015—$90 million) on its E&E Assets as the net present value of future cash flows exceeded the carrying value of the respective CGU's.

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

As at December 31, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the property, plant and equipment. For the year ended December 31, 2016, no impairment has been recognized on property, plant and equipment (December 31, 2015—$205 million).

The following table was used in the December 31, 2016 impairment assessment 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, 2017.

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)
2017	2	0.750	55.00	53.32	46.69	3.46
2018	2	0.775	59.00	56.79	50.40	3.10
2019	2	0.800	64.00	61.27	55.03	3.27
2020	2	0.825	67.00	63.00	56.96	3.49
2021	2	0.850	71.00	65.90	59.95	3.67
2022	2	0.850	74.00	69.42	63.43	3.86
2023	2	0.850	77.00	72.91	66.99	4.05
2024	2	0.850	80.00	76.45	70.48	4.16
2025	2	0.850	83.00	79.93	73.63	4.24
2026	2	0.850	86.05	83.47	77.54	4.32
2027+	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, 2016 and 2015. 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, 2016, 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

	2016	2015
Working capital deficit (surplus) [1, 2]	**$ 319,304**	$ 286,121
Shareholders' equity	**607,455**	604,098
	$ 926,759	$ 890,219

1. Included in working capital deficit/(surplus) at December 31, 2016, is restricted cash of Nil (December 31, 2015, $14.4 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, 2016 and have been included in the working capital deficit as the conditions to extend the maturity date to August 1, 2017 on September 12, 2016.

On August 8, 2014, the Company completed an offering of USD $200 million senior secured notes (the "Notes") at an offering price of USD $938.01 per USD $1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD $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 premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating with the noteholders.

On September 9, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Wells Fargo Bank N.A., as administrative agent, and certain bondholders (collectively "the Bondholders") in respect of US $200 million of notes made under a note agreement dated August 8, 2014. Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising the rights and remedies arising from the Company's failure to pay cash interest and principal payments due on August 1, 2016.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD $25 million in principal amount on February 1, 2017. These payments were not made.

Sunshine continued to be in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine has failed to pay the Yield Maintenance Premium ("YMP") of USD $14,596,000 payable on October 16, 2016;
- Sunshine failed to repay USD $25,000,000 of the Senior Notes principal balance payable on February 1, 2017;
- Sunshine failed to pay the 2.50% Forbearance Fees of USD $ 2,400,000 payable on February 1, 2017, as;
- Sunshine failed to pay accrued interest equal in aggregate to USD $10,000,000 payable on February 1, 2017 as contemplated by the Forbearance Agreement;
- Sunshine did not maintain minimum liquidity levels of USD $10,000,000 as contemplated in the Forbearance Agreement.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") with the Bondholders. The Bondholders agree to waive the termination events listed above and fully reinstate the Forbearance Agreement, provided that Sunshine make the following payments on or before March 27, 2017:

- Payment of $2.8 million representing 20% of the YMP originally due on August 1, 2016; and
- Payment of $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017;
- As of March 21, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 21, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal on August 1, 2017 of an amount equal to 80% of the YMP;
- Make principal repayments to the Bondholders of USD $5.0 million on April 30, 2017, USD $10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On March 21, 2017, Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $8.9 million of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 21, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

The Company has presented the Notes as a current liability on Consolidated Statements of Financial Position as at December 31, 2016.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At December 31, 2016, the Company had incurred $8.0 million (USD $6.0 million equivalent using the year end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of $1US = 1.3427CDN.

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 because of financial market conditions generally, or as a result of conditions specific to the Company.

For the three months and year ended December 31, 2016, the Company reported a net loss of $23.2 million and $73.3 million, respectively. At December 31, 2016, the Company had a working capital deficiency of $319.3 million including senior notes of $268.5 million and an accumulated deficit of $707.1 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 39% as at December 31, 2016, compared to 38% as at December 31, 2015.

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, 2016, the Company had a foreign exchange loss of $5.3 million and a foreign exchange gain of $6.8 million compared to an $8.0 million and $36.3 million loss in the same period in 2015. The change in foreign exchange for the three month period ended December 31, 2016, was primarily due to a $2.2 million unrealized loss on translation of the US denominated Notes, and a loss of $0.6 million unrealized loss on US and HKD denominated cash balances. The $43.2 million increase in foreign exchange gain for the year ended December 31, 2016, was primarily due to a $49.8 million unrealized gain on translation of the US denominated Notes, and a $1.5 million decrease in realized foreign loss, offset by an unrealized loss of $8.0 million 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, 2016. 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, 2016 would have been impacted by Nil and the carrying value of the senior notes at December 31, 2016 would have been impacted by $2.6 million. At December 31, 2016, the Company held approximately USD $0.2 million or $0.3 million of cash, using the December 31, 2016 exchange rate of $1US= $1.3427CDN, 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, 2016 would have been impacted by approximately $0.1 million. At December 31, 2016, the Company held, after recent equity closings, approximately HKD$70.5 million or $12.1 million using the December 31, 2016 exchange rate of $1CDN=$5.7748HKD, as cash in the Company's HKD bank account.

At December 31, 2016, The Company also had $3.2 million classified as a deposit, with the Alberta Energy Regulator for the Licensee Liability Rating Program (by February 22, 2017, $3.2 million had been refunded in total).

CASH FLOWS SUMMARY

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	**2016**	2015
Cash used in operating activities	**$ (540)**	$ (1,928)	**$ (3,418)**	$ (18,280)
Cash used in investing activities	**(607)**	(19,490)	**(12,569)**	(123,994)
Cash provided by financing activities	**13,245**	5,723	**23,561**	5,216
Effect of exchange rate changes on cash held in foreign currency	**922**	370	**(484)**	7,506
Net (decrease)/increase in cash	**13,020**	(15,325)	**7,090**	(129,552)
Cash, beginning of period	**615**	21,870	**6,545**	136,097
Cash, end of period	**$ 13,635**	$ 6,545	**$ 13,635**	$ 6,545

OPERATING ACTIVITIES

Net cash used for operating activities for the three months and year ended December 31, 2016 was $0.5 million and $3.4 million compared to cash used of $1.9 million and $18.3 million in 2015, a decrease of $1.4 million and a decrease of $14.9 million, respectively. Net cash used for operating activities includes movement in working capital of $2.4 million and $10.2 million for the three months and year ended December 31, 2016 compared to movement of $2.7million for the same periods in 2015.

INVESTING ACTIVITIES

Net cash used from investing activities for the three months ended December 31, 2016 decreased by $18.9 million to $0.6 million compared to cash used $19.5 million for the three month period ended December 31, 2015. The decrease was primarily due to a reduction in payments for property, plant and equipment of $20.2 million and $0.5 million reduction of the release of restricted cash, offset by a decrease in non-cash movement in working capital of $1.7 million. For the year ended December 31, 2016 net cash used for investing activities decreased by $111.4 million to $12.6 million compared to $124.0 million for the year ended December 31, 2015. The decrease was primarily a reduction in payments for property, plant and equipment of $11.72 million and $1.3 million non cash movement in working capital related to the West Ells project, offset by the release of restricted cash of $6.3 million to fund long-term debt interest payments, a reduction in interest received of $0.4 million and proceeds from sale of assets of $0.4 million.

FINANCING ACTIVITIES

Net cash generated from financing activities for the three month period ended December 31, 2016 totalled $13.2 million, which consisted of proceeds from the issue of common shares of $26.6 million less payment of $0.3 million share issue cost, offset by finance costs of $13.0 million. Financing activities for the year ended December 31, 2016 generated $23.6 million, which consisted of proceeds from the issue of common shares of $72.7 million less payment for share issue costs of $0.4 million, offset by payment for finance costs, largely related to the Notes interest, amortization and redemption premium costs of $48.7 million. 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 $6.6 million. Financing activities for the year ended December 31, 2015 generated $5.2 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, offset by payment for finance costs, largely related to the Notes interest, amortization and redemption premium costs of $30.3 million.

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, 2016, the Company's estimated commitments are as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Repayment of long-term debt[1]	$ 268,540	268,540	—	—	—	—	—
Interest payments on long-term debt[2]	33,299	33,299	—	—	—	—	—
Redemption premium[3]	19,598	19,598	—	—	—	—	—
Drilling, other equipment and contracts	3,550	3,456	94	—	—	—	—
Lease rentals[4]	9,254	1,421	1,402	1,414	1,414	1,414	2,189
Office leases	6,118	2,893	2,580	645	—	—	—
	$ 340,359	329,207	4,076	2,059	1,414	1,414	2,189

1. Principal amount of Notes based on the year exchange rate of $1US=1.3427 CDN and a maturity date of August 1, 2017.

2. Based on 10% per annum and a maturity date of August 1, 2017, at the year exchange rate of $1US=1.3427 CDN.

3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2017. Using the year exchange rate of $1US=1.3427 CDN this premium amounts to $19,568. At December 31, 2016, the Company had the option to redeem the Notes at 2.333% of the aggregate principal amount of the Notes outstanding which amounts to $6,265 using the year end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2017 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.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2016 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

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13), and he has also loaned the Company funds on an unsecured basis.

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 was considered Permitted Debt under the Company's Notes as long as it did not exceed USD $5.0 million. The Loan had an interest rate of 6.0% per annum, can be drawn up to HK$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the Loan, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements (Note 13). As at December 31, 2016, both the Loan and Second loan balances were Nil.

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, 2016, the Company did not have any other off-balance sheet arrangements.

SUBSEQUENT EVENTS

On January 17, 2017 the Company entered into a subscription agreement for a total of 60,000,000 class "A" common shares at a price of HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On February 28, 2017 the Company ceased capitalization of its West Ells Phase I project ("the Project"). As of this date the Project has met the following criteria:

- The formation has been steaming for more than one year.
- All of the 8 well pairs have been in SAGD production for a certain period of time.
- The plant has been operating in the manner intended by management.
- The project is now running at approximately 60% of its nameplate capacity.

Hence, the Company will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project effective March 1, 2017. These amounts will be included in the Statement of Operations and Comprehensive Loss.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class "A" common shares at a price of HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

On January 31, 2017, the Company updated the status of the Agreement, and on March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement ("NEA") with the bondholders.

NEW ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

On January 19, 2016, the IASB issued amendments to IAS12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Amendments to IAS 12 will be applied on a retrospective basis by the Corporation on January 1, 2017. The adoption of this amended standard is not expected to have a material impact on the Company's consolidated financial statements.

On January 29, 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows, as part of its disclosure initiative. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of this amended standard will have required disclosure impacts that enable users of financial statements to evaluate changes in liabilities arising from financing activities on the Company's' consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of these amendments on the Company's consolidated financial statements.

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. As a result of anticipated long project lives, usually of 20 to 50 years, these estimates may change substantially due to, among other things: (i) changes in regulations; (ii) changes and advancement in technology; (iii) changes in costs and cost structure; and (iv) adjustments to the termination time of a project.

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, 2015, which is available at www.sedar.com. The 2015 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 2016 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 Gloria Ho, 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, 2016, 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, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, 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, 2016, and concluded that the Company's ICFR are effective at December 31, 2016 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the three months and year ended December 31, 2016 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

General mandate

On March 15, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with Bright Hope Global Investments Limited ("Bright Hope") under which Bright Hope agreed to subscribe for a total of 558,823,500 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$189,999,990 (approximately CDN$30,902,347) (the "Bright Hope Placement").

Completion of the Placement was subject to the fulfillment (or waiver) of certain regulatory conditions, which have been met.

Completion of the Placement was to occur on or before May 14, 2016 (or such other date as the Company may choose) (the "Closing Date"). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company 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 Company 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 Company and the Subscriber under the Subscription Agreement would immediately and unconditionally cease and be null and void.

On April 27, 2016, the Company completed the closing of 88,234,000 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.055 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$29,999,560 (approximately CDN$4.9 million). In addition, an introduction fee of HK$599,991 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope be closed in one or more remaining tranches, with the last tranche closing no later than May 14, 2016.

On May 16, 2016, the Company announced, effective May 14, 2016, an extension of the remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares, subscribed for by Bright Hope at a price of HK$0.34 per Common Share (approximately CDN$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$20,016,140 (approximately CDN$3.3 million). In addition, an introduction fee of HK$400,323 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing.

On July 4, 2016, the Company announced, effective June 30, 2016, an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On August 31, 2016, the Company announced an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope to be closed in one or more remaining tranches, with the last tranche closing no later than October 31, 2016.

On October 24, 2016, the Company completed the closing of 137,941,176 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$46,900,000 (approximately CDN$8.05 million). In addition, an introduction fee of HK$937,995.40 (approximately CDN$160,927.03) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company completed the closing of 23,529,412 Common Shares subscribed for by Bright Hope (at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon Partial Closing, the Company received total gross proceeds of HK$8,000,000 (approximately CDN$1.38 million). In addition, an introduction fee of HK$160,000 (approximately CDN$27,619) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company announced an extension of the remaining 250,247,912 Common Shares (approximately HK$85,084,290 or CDN$14.69 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than January 31, 2017.

Subsequent to the announcement dated October 31, 2016 of the further extension to the closing date of the Bright Hope subscription agreement regarding to the remaining 250,247,912 Common Shares, the Company had been informed by the Stock Exchange that the Company's agreement on October 30, 2016 to issue shares to Bright Hope on or before the extended closing date of January 31, 2017 did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the

Company cannot issue those remaining Common Shares under the Private Placement under the General Mandate. As a result, the Company and Bright Hope determined to mutually terminate the subscription agreement effective November 21, 2016 (Hong Kong time).

On December 7, 2016, the Company entered into a subscription agreement with a third party for a total of 50,000,000 class "A" common shares at a price of HK$0.321 per share (approximately CDN$0.054 per common share), for gross proceeds of HK$16.05 million (approximately CDN$2.7million). On December 14, 2016 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$120,375 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited ("Zhengwei") under which Zhengwei agreed to subscribe for a total of 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HK$0.29 per Common Share or approximately CDN$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HK$43.5 million (approximately CDN$7.6 million).

On January 17,2017 the Company entered into a subscription agreement with a third party for a total of 60,000,000 class "A" common shares at a price of HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class "A" common shares at a price of HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

Specific mandate

On May 2, 2016, the Board of Directors, having taken into account the existing market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Common Shares (HK$310,140,000 or approximately CDN$53.5 million) subscribed by Prime Union Enterprises Limited ("Prime Union") (original subscription agreement was May 31, 2015) to August 2, 2016 from May 2, 2016. The remaining subscribed Common Shares was to be closed in one or more tranches with the last tranche closing no later than August 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.

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares subscribed for by Prime Union at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.68 million).

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.124 per Common Share). Under which, the Company received total gross proceeds of HK$30,000,000 (approximately CDN$4.96 million). The remaining 360,186,667 Common Shares (HK$270,140,000 or approximately CDN$44.6 million) subscribed for by Prime Union, which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares subscribed for by Prime Union at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon which, the Company has received total gross proceeds of HK$72,300,000 (approximately CDN$12.2 million). The HK$72.3 million was comprised of HK$30.0 million in cash and HK$42.3 million in repayment of the Loan and the Second Loan plus interest due at July 19, 2016.

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company has received total gross proceeds of HK$114,000,000 (approximately CDN$19.2 million).

On August 3, 2016, the Company announced an extension, effective August 2, 2016, for the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union advised Sunshine that it has been working diligently to obtain the regulatory approvals but required additional time.

On October 24, 2016, the Company completed the closing of 13,333,333 Common Shares (the "Prime Union Partial Closing") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.72 million). The remaining 98,453,334 Common Shares (HK$73,840,000 or CDN$12.68 million) subscribed for by Prime Union will be closed in one or more tranches.

On December 1, 2016, the Company completed the closing of the remaining 98,453,334 Common Shares (the "Prime Union Partial Closing") under this Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under the Prime Union Partial Closing, the Company received total gross proceeds of HK$73,840,000 (approximately CDN$12.69 million).

Post-IPO Stock Option Plan

For the three months and year ended December 31, 2016, the Company granted 6,632,943 and 215,539,909 Post-IPO stock options respectively. During the three months and year ended December 31, 2016, there were 14,407,104 and 52,112,560 forfeitures and expiries of stock options. During the three months and year ended December 31, 2016, there were Nil and 241,666 stock options exercised.

Employee Share Savings Plan ("ESSP")

During the year ended December 31, 2015, the Company issued 6,834,537 Class "A" common shares, from the Company's 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.

SHARES OUTSTANDING

As at March 21, 2017, the Company had 5,062,601,358 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, 2016, together with comparative figures for the corresponding periods in 2015 as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ 13,635	$ 6,545
Restricted cash and cash equivalents	—	14,389
Trade and other receivables	2,654	2,253
Prepaid expenses and deposits	5,054	8,119
	21,343	31,306
Non-current assets		
Exploration and evaluation	291,716	290,945
Property, plant and equipment	684,531	650,930
	976,247	941,875
	$ 997,590	$ 973,181
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and accrued liabilities	$ 71,526	$ 47,611
Provisions	581	3,492
Share purchase warrants	—	3
Senior Notes	268,540	266,321
	340,647	317,427
Non-current liabilities		
Provisions	49,488	51,656
	390,135	369,083
Net current assets	(319,304)	(286,121)
Total assets less current liabilities	656,943	655,754
Shareholders' Equity		
Share capital	1,247,302	1,174,987
Reserve for share-based compensation	67,262	62,910
Deficit	(707,109)	(633,799)
	607,455	604,098
	$ 997,590	$ 973,181

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	**2016**	2015
Other income				
Interest income	**$ 8**	$ 25	**$ 43**	$ 471
Gain on sale of assets	**—**	—	**2**	174
Fair value adjustment on share purchase warrants gains	**—**	130	**3**	379
	8	155	**48**	1,024
Expenses				
Salaries, consulting and benefits	**2,296**	2,681	**6,998**	10,746
Rent	**347**	337	**1,355**	1,409
Legal and audit	**118**	139	**1,873**	1,891
Depreciation and impairment	**126**	295,159	**547**	295,593
Share-based compensation	**1,011**	287	**3,803**	1,563
Finance costs	**13,901**	17,857	**62,520**	47,543
Foreign exchange losses	**5,275**	7,999	**(6,842)**	36,306
Contract provision expense	**—**	36	**142**	6,636
Other	**171**	1,421	**2,962**	5,472
	$ 23,245	$ 325,916	**$ 73,358**	$ 407,159
Loss before income taxes	**23,237**	325,761	**73,310**	406,135
Income taxes	**—**	—	**—**	—
Net loss and comprehensive loss for the period attributable to equity holders of the Company	**$ 23,237**	$ 325,761	**$ 73,310**	$ 406,135
Basic and diluted loss per share	**$ 0.00**	$ 0.08	**$ 0.02**	$ 0.10

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 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, 2016	December 31, 2015
Trade	$ 1,434	$ 1,184
Accruals and other receivables	1,053	56
Goods and services taxes receivable	167	1,013
	$ 2,654	$ 2,253

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, 2016	December 31, 2015
0–30 days	$ —	$ 66
31–60 days	1	(2)
61–90 days	11	2
>90 days	1,422	1,118
	$ 1,434	$ 1,184

As at December 31, 2016, included in the Company's trade receivables were debtors with an aggregate carrying amount of $1.4 million (December 31, 2015—$1.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances. Management believes the past due amounts will be collected.

4. *Trade Payables*

Trade payables and accrued liabilities mainly represent payables to subcontractors for development, engineering, procurement and construction services. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting year:

	December 31, 2016	December 31, 2015
Trade		
0–30 days	$ 4,514	$ 11,093
31–60 days	1,343	6,284
61–90 days	750	3,131
> 91 days	20,734	2,210
	27,341	22,718
Accrued liabilities	44,185	24,893
	$ 71,526	$ 47,611

5. Dividends

The Company has not declared or paid any dividends in respect of the three months and year ended December 31, 2016 (2015—$Nil).

6. Income Taxes

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

	December 31, 2016	December 31, 2015
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	$ (119,980)	$ (94,478)
Decommissioning liabilities	13,362	13,947
Share issue costs	1,754	6,790
Non-capital losses	193,894	194,902
Deferred tax benefits not recognized	(89,030)	(121,161)
	$ —	$ —

The Company's non-capital losses of $718,126 (December 31, 2015—$685,884), 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, 2016. 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, 2016.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements for the Company for the year ended December 31, 2016, were reviewed by the Audit Committee of the Company, audited by 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, 2016 and 2015, 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, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Oilsands Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flow for the years ended December 31, 2016 and December 31, 2015, in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Sunshine's ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants
March 21, 2017
Calgary, Alberta

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

	Notes	As at December 31, 2016	2015
Assets			
Current assets			
Cash	4	$ 13,635	$ 6,545
Restricted cash and cash equivalents	4	—	14,389
Trade and other receivables	5	2,654	2,253
Prepaid expenses and deposits	6	5,054	8,119
		21,343	31,306
Non-current assets			
Exploration and evaluation	7	291,716	290,945
Property, plant and equipment	8	684,531	650,930
		976,247	941,875
		$ 997,590	$ 973,181
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and accrued liabilities	9	$ 71,526	$ 47,611
Provisions	11	581	3,492
Share purchase warrants	13.2	—	3
Senior Notes	10	268,540	266,321
		340,647	317,427
Non-current liabilities			
Provisions	11	49,488	51,656
		390,135	369,083
Shareholders' Equity			
Share capital	13	1,247,302	1,174,987
Reserve for share-based compensation		67,262	62,910
Deficit		(707,109)	(633,799)
		607,455	604,098
		$ 997,590	$ 973,181

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

Approved by the Board

"Gerry Stevenson"
Director

"Qiping Men"
Executive Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

		For the year ended December 31,	
	Notes	**2016**	2015
Interest income		**$ 43**	$ 471
Gain on sale of assets	7, 8	**2**	174
Fair value adjustment on share purchase warrants	13.2	**3**	379
		48	1,024
Expenses			
Salaries, consulting and benefits		**6,998**	10,746
Rent		**1,355**	1,409
Legal and audit		**1,873**	1,891
Depreciation and impairment	7, 8	**547**	295,593
Share-based compensation	14.5	**3,803**	1,563
Finance costs	15	**62,520**	47,543
Foreign exchange (gains)/losses	17.6	**(6,842)**	36,306
Contract provision expense	11.2	**142**	6,636
Other		**2,962**	5,472
		$ 73,358	$ 407,159
Loss before income taxes		**73,310**	406,135
Income taxes	12	**—**	—
Net loss and comprehensive loss		**$ 73,310**	$ 406,135
Basic and diluted loss per share	16	**$ 0.02**	$ 0.10

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, 2015		$ 62,910	$ 1,174,987	$ (633,799)	$ 604,098
Net loss and comprehensive loss for the year		—	—	(73,310)	(73,310)
Issue of common shares	13.1	—	72,695	—	72,695
Recognition of share-based compensation	14.5	4,362	—	—	4,362
Issue of shares upon exercise of share options	13.1	—	15	—	15
Reserve transferred on exercise of share options	13.1	(10)	10	—	—
Share issue costs, net of deferred tax ($Nil)	13.1	—	(405)	—	(405)
Balance, December 31, 2016		$ 67,262	$ 1,247,302	$ (707,109)	$ (607,455)
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	14.5	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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

	Notes	For the years ended December 31, 2016	2015
Cash flows used in operating activities			
Net loss		$ (73,310)	$ (406,135)
Finance costs		62,520	47,543
Unrealized foreign exchange (gains)/losses	17.6	(7,159)	34,474
Contract provision expense	11.2	75	6,636
Interest income		(43)	(471)
Gain on sale of assets	7, 8	(2)	(174)
Fair value adjustment on share purchase warrants	13.2	(3)	(379)
Depreciation and impairment	7, 8	547	295,593
Share-based compensation	14.5	3,803	1,563
Employee share savings plan	14.2	—	356
Movement in non-cash working capital	21	10,154	2,714
Net cash used in operating activities		(3,418)	(18,280)
Cash flows used in investing activities			
Interest received		43	471
Proceeds from sale of assets	7, 8	2	447
Payments for exploration and evaluation assets	7	(1,344)	(1,375)
Payments for property, plant and equipment	8	(36,145)	(153,367)
Release of restricted cash to fund long-term debt interest payments	4	14,389	20,679
Movement in non-cash working capital	21	10,486	9,151
Net cash used in investing activities		(12,569)	(123,994)
Cash flows provided in financing activities			
Proceeds from issue of common shares	13.1	72,710	35,751
Payment for share issue costs	13.1	(405)	(196)
Cash portion of finance costs	15	(51,514)	(32,221)
Movement in non-cash working capital	21	2,770	1,882
Net cash provided by financing activities		23,561	5,216
Effect of exchange rate changes on cash held in foreign currency	17.6	(484)	7,506
Net increase/(decrease) in cash		7,090	(129,552)
Cash, beginning of year		6,545	136,097
Cash, end of year		$ 13,635	$ 6,545

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

1. COMPANY INFORMATION

Sunshine Oilsands Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of its principal place of business is 1020, 903 – 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, 2016, 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 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.

2. BASIS OF PREPARATION

Going Concern

These Consolidated Financial Statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. The Company has historically met its day to day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share issuances.

Recently the Company has been unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes (Note 10). Management continually monitors the Company's financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following December 31, 2016.

The timing and extent of forecast capital and operating expenditures is based on the Company's 2017 budget and on management's estimate of expenditures expected to be incurred beyond 2017. The Company has a significant degree of control and flexibility over both the extent and timing of expenditures under its future capital investment program.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at December 31, 2016, the availability of additional financing, and the timing and extent of capital and operating expenditures.

The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Group's ability to continue as a going concern.

On September 9, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Wells Fargo Bank N.A., as administrative agent, and certain bondholders (collectively "the Bondholders") in respect of USD $200 million of notes made under a note agreement dated August 8, 2014. Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising the rights and remedies arising from the Company's failure to pay cash interest and principal payments due on August 1, 2016.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD $25 million in principal amount on February 1, 2017. These payments were not made.

Sunshine continued to be in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine has failed to pay the Yield Maintenance Premium ("YMP") of USD $14,596,000 payable on October 16, 2016;

- Sunshine failed to repay USD $25,000,000 of the Senior Notes principal balance payable on February 1, 2017;

- Sunshine failed to pay the 2.50% Forbearance Fees of USD $ 2,400,000 payable on February 1, 2017, as;

- Sunshine failed to pay accrued interest equal in aggregate to USD $10,000,000 payable on February 1, 2017 as contemplated by the Forbearance Agreement;

- Sunshine did not maintain minimum liquidity levels of USD $10,000,000 as contemplated in the Forbearance Agreement.

On March 21 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") with the Bondholders. The Bondholders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine make the following payments on or before March 27, 2017:

- Payment of USD $2.8 million representing 20% of the YMP originally due on August 1, 2016; and

- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017;

- As of March 21, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 21, 2017, which has been paid on March 21, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares,
- Make principal repayments to the Bondholders of USD $5.0 million on April 30, 2017, USD $10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On March 21, 2017, Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $8.9 million of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 21, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

On March 1, 2017, the West Ells Phase I project, located in the Athabasca region of Alberta, achieved commercial production. This marked a key milestone for the Corporation, following which the Project will be treated as a fully operational and commercialized project. The Company ceased capitalization of the petroleum revenue, royalties, diluent, costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project under IFRS effective March 1, 2017.

The consolidated financial statements have been prepared on a basis which asserts that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these Financial Statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and balance sheet classifications may be necessary and such adjustments could be material. Specifically, in the absence of additional financing and the restructuring of current debt (Note 10) the Company would be unlikely to be able to continue the development of the West Ells project and the Company would be required to consider divestiture of the West Ells project and other exploration assets. Such curtailment of activity would likely materially and negatively impact the Company's assessment of the carrying values of assets and liabilities associated with the West Ells project.

These consolidated financial statements reflect management's best estimates after giving consideration to likely outcomes. The consolidated financial statements continue to be prepared in accordance with International Financial Reporting Standards ("IFRS") and are consistent with the Company's accounting policies as outlined in financial statement note 3.

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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 ("E&E") costs 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.

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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 and 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 assessed for the indictors of impairment at the end of each period. The assessment for impairment is completed on a CGU basis. After impairment is assessed, any carrying amounts which exceed recoverable amounts, by CGU, 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, computers and vehicles are depreciated on a declining balance basis between 20 and 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 inflows 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.

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

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.

Between the dates 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

On January 19, 2016, the IASB issued amendments to IAS12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Amendments to IAS 12 will be applied on a retrospective basis by the Corporation on January 1, 2017. The adoption of this amended standard is not expected to have a material impact on the Company's consolidated financial statements.

On January 29, 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows, as part of its disclosure initiative. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of this amended standard will have required disclosure impacts that enable users of financial statements to evaluate changes in liabilities arising from financing activities on the Company's' consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of these amendments on the Company's consolidated financial statements.

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.

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

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.

4. CASH, RESTRICTED CASH AND CASH EQUIVALENTS

	2016	2015
Current asset		
Cash[1]	**$ 13,635**	$ 6,545
Current restricted cash and cash equivalents[2]	**—**	14,389
	$ 13,635	$ 20,934

1. The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates of between 0.1% and 1.55%.

2. The USD $200 million senior secured notes issued in August 2014 required USD $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. On February 1, 2016, the third interest payment of USD $10 million was paid from the restricted escrow account. There is Nil remaining in the restricted escrow account.

5. TRADE AND OTHER RECEIVABLES

	2016	2015
Trade	**$ 1,434**	$ 1,184
Accruals and other receivables	**1,053**	56
Goods and Services Taxes receivable	**167**	1,013
	$ 2,654	$ 2,253

As at December 31, 2016, included in the Company's trade receivables was an aggregate carrying amount of $1.4 million (December 31, 2015—$1.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances.

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

6. PREPAID EXPENSES AND DEPOSITS

	2016	2015
Prepaid expenses	$ 1,067	$ 518
Deposits	3,987	7,601
	$ 5,054	$ 8,119

As at December 31, 2016, the deposits include $3.2 million held with the Alberta Energy Regulator for the Licensee Liability Rating Program (by February 22, 2017, $3.2 million had been refunded in total). The remaining deposits include ordinary business deposits of $0.7 million.

7. EXPLORATION AND EVALUATION

Balance, December 31, 2014	$ 379,403
Capital expenditures	1,375
Non-cash expenditures[1]	167
Impairment	(90,000)
Balance, December 31, 2015	$ 290,945
Capital expenditures	1,344
Non-cash expenditures[1]	(573)
Balance, December 31, 2016	$ 291,716

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 exploration and evaluation ("E&E") assets for any period. During the year ended December 31, 2016 and 2015, the Company capitalized directly attributable costs/(recovery) including $Nil for share-based compensation and $0.1 million of general and administrative costs.

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

	2016	2015
Intangibles	$ 270,417	$ 272,278
Tangibles	19,584	18,683
Land and lease costs	91,175	89,984
	$ 381,716	$ 380,945

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

Impairment

As at December 31, 2016, 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, 2016 reserve report as prepared by its independent reserve engineers. 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, 2016, the Company recognized an impairment of $Nil (December 31, 2015—$90 million) on its E&E Assets as the estimated recoverable amount exceeded the carrying value.

8. PROPERTY, PLANT AND EQUIPMENT

	Crude oil assets	Corporate assets	Total
Cost			
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
Capital expenditures	35,970	175	36,145
Non-cash expenditures[1]	(1,997)	—	(1,997)
Balance, December 31, 2016	$ 887,821	$ 4,637	$ 892,458

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, 2014	$ —	$ 1,960	$ 1,960
Disposal	—	(173)	(173)
Depreciation expense	—	593	593
Impairment	205,000	—	205,000
Balance, December 31, 2015	$ 205,000	$ 2,380	$ 207,380
Depreciation expense	—	547	547
Balance, December 31, 2016	$ 205,000	$ 2,927	$ 207,927
Carrying value, December 31, 2015	$ 648,848	$ 2,082	$ 650,930
Carrying value, December 31, 2016	$ 682,821	$ 1,710	$ 684,531

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

At December 31, 2016, 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, 2016, the Company capitalized directly attributable costs including $0.6 million for share-based compensation (2015—$0.7 million) and $3.2 million for general and administrative costs (2015—$6.0 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.

As at December 31, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the West Ells CGU.

9. TRADE AND ACCRUED LIABILITIES

	2016	2015
Trade	**$ 27,341**	$ 22,718
Accrued liabilities	**44,185**	24,893
	$ 71,526	$ 47,611

10. SENIOR NOTES

	2016	2015
Senior secured notes (USD $200,000,000)	**$ 268,540**	$ 276,800
Discount on notes	**(16,168)**	(17,159)
Financing transaction costs on notes	**(11,846)**	(11,846)
Amortization of financing transaction costs and discount	**28,014**	18,526
Balance, end of year	**$ 268,540**	$ 266,321

On August 8, 2014, the Company completed an offering of USD $200 million senior secured notes (the "Notes") at an offering price of USD $938.01 per USD $1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD $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 premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating with the noteholders.

On September 9, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Wells Fargo Bank N.A., as administrative agent, and certain bondholders (collectively "the Bondholders") in respect of USD $200 million of notes made under a note agreement dated August 8, 2014. Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising the rights and remedies arising from the Company's failure to pay cash interest and principal payments due on August 1, 2016.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD $25 million in principal amount on February 1, 2017. These payments were not made.

Sunshine continued to be in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine has failed to pay the Yield Maintenance Premium ("YMP") of USD $14,596,000 payable on October 16, 2016;
- Sunshine failed to repay USD $25,000,000 of the Senior Notes principal balance payable on February 1, 2017;
- Sunshine failed to pay the 2.50% Forbearance Fees of USD $ 2,400,000 payable on February 1, 2017;
- Sunshine failed to pay accrued interest equal in aggregate to USD $10,000,000 payable on February 1, 2017 as contemplated by the Forbearance Agreement;
- Sunshine did not maintain minimum liquidity levels of USD $10,000,000 as contemplated in the Forbearance Agreement.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") with the Bondholders. The Bondholders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine make the following payments on or before March 27, 2017:

- Payment of USD $2.8 million representing 20% of the YMP originally due on August 1, 2016; and
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017;
- As of March 21, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 21, 2017, which has been paid as of March 21, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal on of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD $5.0 million on April 30, 2017, USD $10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On March 21, 2017 Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $8.9 million of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 21, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

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

The Company has presented the Notes as a current liability on Consolidated Statements of Financial Position as at December 31, 2016.

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 reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At December 31, 2016, the Company had incurred $8.0 million (USD $6.0 million equivalent using the year end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of $1US = 1.3427CDN.

11. PROVISIONS

	2016	2015
Decommissioning obligations (Note 11.1)	**$ 49,488**	$ 51,656
Contract provision (Note 11.2)	**581**	3,492
	$ 50,069	$ 55,148
Presented as:		
Provisions (current)	**$ 581**	$ 3,492
Provisions (non-current)	**$ 49,488**	$ 51,656

11.1 Decommissioning obligations

As at December 31, 2016, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $80.1 million (December 31, 2015—$81.8 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.

	2016	2015
Balance, beginning of year	**$ 51,656**	$ 49,484
Effect of changes in discount rate	**(3,128)**	1,117
Unwinding of discount rate	**960**	1,055
	$ 49,488	$ 51,656
Current portion	**—**	—
Balance, end of year	**$ 49,488**	$ 51,656

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

11.2 Contract provision

As at December 31, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $0.6 million (December 31, 2015—$6.6 million). The $0.6 million represents the maximum obligation required if the drilling rig was not utilized over the remaining term of the contract, which ended in the fourth quarter of 2016. At December 31, 2016, this obligation was broken into a $5.6 million payable and a $0.6 million provision (December 31, 2015—$3.1 million payable and $3.5 million provision). For the year ended December 31, 2016, the Company paid $0.6 million against the obligation.

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% (2015—27.0%) to earnings before income taxes for the following reasons:

	For the year ended December 31,	
	2016	2015
Net loss before taxes	**$ (73,310)**	$ (406,135)
Tax rate (%)	**27.0%**	27.0%
Expected income tax recovery	**(19,794)**	(109,656)
Effect of expenses that are not deductible in determining taxable profit:		
Share based payment expense	**1,027**	422
Capital portion of foreign exchange	**(1,925)**	9,295
Unrecognized tax assets		
Changes to opening tax pools	**1,962**	216
Change in deferred tax benefits not recognized	**18,730**	99,723
Income tax recovery	**$ —**	$ —

12.2 Deferred tax balances

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

	December 31, 2016	December 31, 2015
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	**$ (119,980)**	$ (94,478)
Decommissioning liabilities	**13,362**	13,947
Share issue costs	**1,754**	6,790
Non-capital losses	**193,894**	194,902
Deferred tax benefits not recognized	**(89,030)**	(121,161)
	$ —	$ —

(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, 2016	December 31, 2015
Canadian development expense	**$ 36,163**	$ 42,888
Canadian exploration expense	**230,926**	230,899
Undepreciated capital cost	**264,788**	318,168
Non-capital losses	**718,126**	685,884[1]
Share issue costs	**6,497**	25,112[1]
	$ 1,256,500	$ 1,302,951

1. 2015 estimated tax pools have been updated to actual tax pool at the end of year.

The Company's non-capital losses of $718,126 (December 31, 2015—$685,884), 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

	2016	2015
Common shares	**$ 1,247,302**	$ 1,174,987

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

13.1 Common shares

	For year ended December 31,			
	2016		2015	
	Number of shares	**$**	Number of shares	$
Balance, beginning of year	**4,230,264,104**	**1,174,987**	3,896,103,191	1,139,022
Private placements — specific mandate	**413,520,000**	**52,350**	111,214,210	14,073
Private placements — general mandate	**358,575,588**	**20,345**	215,037,000	21,214
Issue of shares under employee share savings plan (Note 14.2)	**—**	**—**	6,834,537	711
Issue of shares under share option plan (Note 14.5)	**241,666**	**15**	1,075,166	108
Share option reserve transferred on exercise of stock options	**—**	**10**	—	55
Share issue costs, net of deferred tax ($Nil)	**—**	**(405)**	—	(196)
Balance, end of year	**5,002,601,358**	**1,247,302**	4,230,264,104	1,174,987

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.

General mandate

On March 15, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with Bright Hope Global Investments Limited ("Bright Hope") under which Bright Hope agreed to subscribe for a total of 558,823,500 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$189,999,990 (approximately CDN$30,902,347) (the "Bright Hope Placement").

Completion of the Placement was subject to the fulfillment (or waiver) of certain regulatory conditions, which have been met.

Completion of the Placement was to occur on or before May 14, 2016 (or such other date as the Company may choose) (the "Closing Date"). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company 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 Company 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 Company and the Subscriber under the Subscription Agreement would immediately and unconditionally cease and be null and void.

On April 27, 2016, the Company completed the closing of 88,234,000 Common Shares subscribed for by Bright Hope at a price of HK$0.34 per Common Share (approximately CDN$0.055 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$29,999,560 (approximately CDN$4.9 million). In addition, an introduction fee of HK$599,991 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope be closed in one or more remaining tranches, with the last tranche closing no later than May 14, 2016.

On May 16, 2016, the Company announced, effective May 14, 2016, an extension of the remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares, subscribed for by Bright Hope at a price of HK$0.34 per Common Share (approximately CDN$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$20,016,140 (approximately CDN$3.3 million). In addition, an introduction fee of HK$400,323 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing.

On July 4, 2016, the Company announced, effective June 30, 2016, an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On August 31, 2016, the Company announced an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope to be closed in one or more remaining tranches, with the last tranche closing no later than October 31, 2016.

On October 24, 2016, the Company completed the closing of 137,941,176 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$46,900,000 (approximately CDN$8.05 million). In addition, an introduction fee of HK$937,995.40 (approximately CDN$160,927.03) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company completed the closing of 23,529,412 Common Shares subscribed for by Bright Hope (at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon Partial Closing, the Company received total gross proceeds of HK$8,000,000 (approximately CDN$1.38 million). In addition, an introduction fee of HK$160,000 (approximately CDN$27,619) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company announced an extension of the remaining 250,247,912 Common Shares (approximately HK$85,084,290 or CDN$14.69 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than January 31, 2017.

Subsequent to the announcement dated October 31, 2016 of the further extension to the closing date of the Bright Hope subscription agreement regarding to the remaining 250,247,912 Common Shares, the Company had been informed by the Stock Exchange that the Company's agreement on October 30, 2016 to issue shares to Bright Hope on or before the extended closing date of January 31, 2017 did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the Company cannot issue those remaining Common Shares under the Private Placement under the General Mandate. As a result, the Company and Bright Hope determined to mutually terminate the subscription agreement effective November 21, 2016 (Hong Kong time).

On December 7, 2016, the Company entered into a subscription agreement with a third party for a total of 50,000,000 class "A" common shares at a price of HK$0.321 per share (approximately CDN$0.054 per common share), for gross proceeds of HK$16.05 million (approximately CDN$2.7 million). On December 14, 2016 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$120,375 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited ("Zhengwei") under which Zhengwei agreed to subscribe for a total of 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HK$0.29 per Common Share or approximately CDN$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HK$43.5 million (approximately CDN$7.6 million).

Specific mandate

On May 2, 2016, the Board of Directors, having taken into account the existing market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Common Shares (HK$310,140,000 or approximately CDN$53.5 million) subscribed by Prime Union Enterprises Limited ("Prime Union") (original subscription agreement was May 31, 2015) to August 2, 2016 from May 2, 2016. The remaining subscribed Common Shares was to be closed in one or more tranches with the last tranche closing no later than August 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.

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares subscribed for by Prime Union at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.68 million).

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.124 per Common Share). Under which, the Company received total gross proceeds of HK$30,000,000 (approximately CDN$4.96 million). The remaining 360,186,667 Common Shares (HK$270,140,000 or approximately CDN$44.6 million) subscribed for by Prime Union, which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares subscribed for by Prime Union at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Upon which, the Company has received total gross proceeds of HK$72,300,000 (approximately CDN$12.2 million). The HK$72.3 million was comprised of HK$30.0 million in cash and HK$42.3 million in repayment of the Loan and the Second Loan plus interest due at July 19, 2016.

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company has received total gross proceeds of HK$114,000,000 (approximately CDN$19.2 million).

On August 3, 2016, the Company announced an extension, effective August 2, 2016, for the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union advised Sunshine that it has been working diligently to obtain the regulatory approvals but required additional time.

On October 24, 2016, the Company completed the closing of 13,333,333 Common Shares (the "Prime Union Partial Closing") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.72 million).

On December 1, 2016, the Company completed the closing of the remaining 98,453,334 Common Shares (the "Prime Union Partial Closing") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK$73,840,000 (approximately CDN$12.69 million).

Post-IPO stock option plan

For the twelve months ended December 31, 2016, the Company issued 241,666 Class "A" common shares, from the exercise of 241,666 stock options at a weighted price of CDN$0.064 per share for cash proceeds of CDN$ 0.02 million. 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 CDN$0.10 per share for cash proceeds of CDN$0.1 million.

2015 activity

General Mandate

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.

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). During the year ended December 31, 2015, the Company issued 111,214,210 Class "A" common shares in private placements under specific mandate at a price of HK$0.75 per share (approximately $0.13 per share) for gross proceeds of HK$83.4 million or approximately CDN$14.1 million.

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. The ESSP was discontinued by the Company on August 31, 2015.

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

13.2 Share purchase warrants

	December 31, 2016		December 31, 2015	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of period	132,910,941	0.34	211,230,941	0.28
Expired	(132,910,941)	0.34	(78,320,000)	0.34
Balance, end of period	—	—	132,910,941	0.34
Exercisable, end of period	—	—	132,910,941	0.34

During the year ended December 31, 2016, 132,910,941 remaining share purchase warrants expired. As at December 31, 2016, the share purchase warrants outstanding had a weighted average remaining contractual life of Nil years (December 31, 2015—0.12 years).

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

	December 31, 2016	December 31, 2015
Balance, beginning of period	$ 3	$ 382
Fair value adjustment	(3)	(379)
Balance, end of period	$ —	$ 3

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.

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

14.2 Employee share savings plan ("ESSP")

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 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, 2016 was $0.09 (year ended December 31, 2015—$0.12). 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 2016 and 2015.

It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 13.39% to 14.65%.

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	**2016**	2015
Grant date share price ($)	**0.058–0.10**	0.10–0.14
Exercise Price ($)	**0.058–0.10**	0.10–0.14
Expected volatility (%)	**66.40–70.70**	67.01–73.99
Option life (years)	**3.76–4.07**	4.10–4.11
Risk-free interest rate (%)	**0.56–0.88**	0.68–0.90
Expected forfeitures (%)	**13.39–14.65**	11.01–11.51

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

14.4 Movements in stock options

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

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, beginning of period	95,554,786	0.31	135,727,289	0.30
Granted	215,539,909	0.09	9,065,387	0.12
Exercised	(241,666)	0.06	(1,075,166)	0.10
Forfeited	(45,542,821)	0.29	(20,121,953)	0.20
Expired	(6,569,739)	0.44	(28,040,771)	0.28
Balance, end of period	258,740,469	0.13	95,554,786	0.31
Exercisable, end of period	122,243,920	0.17	71,686,715	0.35

As at December 31, 2016, stock options outstanding had a weighted average remaining contractual life of 4.4 years (December 31, 2015—2.9 years).

The Company granted 215,539,909 stock options during the year ended December 31, 2016. The stock options were granted to chief executives, directors and employees. 42,111,000 of the stock options were granted to Mr. Kwok Ping Sun conditionally subject to shareholder approval at the next general meeting of the shareholders.

14.5 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,					
	2016			2015		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 3,803	$ 559	$ 4,362	$ 1,563	$ 744	$ 2,307

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

15. FINANCE COSTS

	For the year ended December 31,	
	2016	2015
Interest expense on senior secured notes	**$ 28,855**	$ 26,030
Interest expense on shareholder's loan	**136**	—
Amortization of financing transaction costs and discount	**10,046**	14,267
Redemption/yield maintenance premium	**19,055**	6,245
Financing related costs	**3,170**	232
Other interest expense/(recovery)	**298**	(286)
Unwinding of discounts on provisions	**960**	1,055
	$ 62,520	$ 47,543

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,	
	2016	2015
Basic and Diluted — Class "A" common shares	**4,499,936,583**	3,977,269,532

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.

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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

	2016	2015
Working capital deficiency	$ 319,304	$ 286,121
Shareholders' equity	607,455	604,098
	$ 926,759	$ 890,219

The working capital deficiency of $319.3 million at December 31, 2016, includes the $268.5 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, 2016.

17.2 Categories of financial instruments

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash, restricted cash and cash equivalents, prepaid expenses, deposits and trade and other receivables	$ 21,343	$ 21,343	$ 31,306	$ 31,306
Financial liabilities				
Trade and accrued liabilities	71,526	71,526	47,611	47,611
Share purchase warrants (Note 13.2)	—	—	3	3
Senior Notes	268,540	268,540	266,321	228,025

17.3 Fair value of financial instruments

The fair value of cash, restricted cash and cash equivalents, prepaid expenses, 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.

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

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.

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, 2016.

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, 2016 would have been impacted by Nil and the carrying value of the long term debt at December 31, 2016 would have been impacted by $2.6 million. At December 31, 2016, the Company held approximately USD $0.2 million or $0.3 million of cash, using the December 31, 2016 exchange rate of 1.3427, 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 $0.1 million. At December 31, 2016, the Company held, after recent equity closings, approximately HKD$70.5 million or $12.1 million using the December 31, 2016 exchange rate of 5.7748, as cash in the Company's HKD bank account.

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

	2016	2015
Unrealized foreign exchange loss/(gain) on translation of:		
U.S. denominated senior secured notes	$ (7,826)	42,004
Foreign currency denominated cash balances	484	(7,506)
Foreign currency denominated accounts payable balances	183	(24)
	(7,159)	34,474
Realized foreign exchange loss	317	1,832
Total foreign exchange (gains)/losses	$ (6,842)	36,306

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

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, 2016, 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, 2016, the interest rate earned on cash was between 0.1% and 1.55%.

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, 2016, the Company's receivables consisted of 6% from Goods and Services Tax receivable, 41% joint interest billing receivable and 53% from other receivables (December 31, 2015—45% from Goods and Services Tax receivable, 39% from joint interest billing receivable and 16% from other receivables).

The Company's unrestricted cash as at December 31, 2016, 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, 2016, there was no allowance for doubtful accounts receivable and the Company wrote off $0.1 million of receivables (December 31, 2015—$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, 2016, the Company had negative working capital of $319.3 million and an accumulated deficit of $707.1 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 timing of cash outflows (excluding interest) relating to financial liabilities as at December 31, 2016, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	$ 71,526	$ 71,526	$ —
Debt[1]	268,540	268,540	—
	$ 340,066	$ 340,066	$ —

1. Principal amount of Notes based on the year end exchange rate of $1 US = 1.3427 CDN

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

18. RELATED PARTY TRANSACTIONS

18.1 Trading transactions

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13), and he has also loaned the Company funds on an unsecured basis.

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 was considered Permitted Debt under the Company's Notes as long as it did not exceed USD $5.0 million. The Loan had an interest rate of 6.0% per annum, can be drawn up to HK$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the Loan, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements (Note 13). As at December 31, 2016, both the Loan and Second loan balances were Nil.

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,	
	2016	2015
Directors' fees[1]	**$ 695**	$ 571
Salaries and allowances	**2,644**	3,050
Share-based compensation	**3,808**	878
	$ 7,147	$ 4,499

1. For the year ended December 31, 2016, this number reflects accrued fees of $0.1 million. Refer to the appendix A2 for additional director fees disclosure.

19. OPERATING LEASE ARRANGEMENTS

Payments recognised as an expense

	For the year ended December 31,	
	2016	2015
Minimum lease payments	**$ 2,005**	$ 2,231

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

20. COMMITMENTS AND CONTINGENCIES

As at December 31, 2016, the Company's commitments are as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Repayment of long-term debt[1]	$ 268,540	268,540	—	—	—	—	—
Interest payments on long-term debt[2]	33,299	33,299	—	—	—	—	—
Redemption premium[3]	19,598	19,598	—	—	—	—	—
Drilling, other equipment and contracts	3,550	3,456	94	—	—	—	—
Lease rentals[4]	9,254	1,421	1,402	1,414	1,414	1,414	2,189
Office leases	6,118	2,893	2,580	645	—	—	—
	$ 340,359	329,207	4,076	2,059	1,414	1,414	2,189

1. Principal amount of Notes based on the year exchange rate of $1US=1.3427 CDN and a maturity date of August 1, 2017.

2. Based on 10% per annum and a maturity date of August 1, 2017, at the year exchange rate of $1US=1.3427 CDN.

3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2017. Using the year exchange rate of $1US=1.3427 CDN this premium amounts to $19,568. At December 31, 2016, the Company had the option to redeem the Notes at 2.333% of the aggregate principal amount of the Notes outstanding which amounts to $6,265 using the year end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2017 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.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the consolidated financial statements for the year ended December 31, 2016 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, 2016, and December 31, 2015, the Company had 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,	
	2016	2015
Cash provided by (used in):		
Trade and other receivables	**$ (401)**	$ (340)
Prepaid expenses and deposits	**3,066**	(2,276)
Trade and other payables	**20,745**	16,363
	$ 23,410	$ 13,747
Changes in non-cash working capital relating to:		
Operating activities		
Trade and other receivables	**$ (1,077)**	$ (214)
Prepaid expenses and deposits	**3,066**	(2,276)
Trade and other payables	**8,165**	5,204
	$ 10,154	$ 2,714
Investing activities		
Property, plant and equipment	**10,486**	9,151
	$ 10,486	$ 9,151
Financing activities		
Share issue costs and finance costs	**$ 2,770**	$ 1,882
	$ 23,410	$ 13,747

For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

22. SUBSEQUENT EVENTS

On January 17, 2017 the Company entered into a subscription agreement for a total of 60,000,000 class “A” common shares at a price of HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On February 28, 2017 the Company ceased capitalization of its West Ells Phase I project (“the Project”). As of this date the Project has met the following criteria:

- The formation has been steaming for more than one year.
- All of the 8 well pairs have been in SAGD production for a certain period of time.
- The plant has been operating in the manner intended by management.
- The project is now running at approximately 60% of its nameplate capacity.

Hence, the Company will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project effective March 1, 2017. These amounts will therefore be included in the Statement of Operations and Comprehensive Loss.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class “A” common shares at a price of HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

On January 31, 2017, the Company updated the status of the Agreement, and on March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement (“FRA”) and a Note Exchange Agreement (“NEA”) with the bondholders. All the terns in relation to the Agreements has been outlined in note 2.

23. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 21, 2017.

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.

	2016	2015
Non-current assets		
Property, plant and equipment	$ 684,410	$ 650,929
Exploration and evaluation assets	291,716	290,945
Amounts due from subsidiary	4,657	3,650
	980,783	945,524
Current assets		
Trade and other receivables	2,654	2,253
Prepaid expenses and deposits	4,956	8,119
Cash	13,066	5,559
Restricted cash and cash equivalents	—	14,389
	20,676	30,320
Current liabilities		
Trade and other payables	71,509	47,575
Provisions	581	3,492
Share purchase warrants	—	3
Amount due to subsidiary	2,611	2,692
Senior Notes	268,540	266,321
	343,241	320,083
Net current assets	(322,565)	(289,763)
Total assets less current liabilities	658,218	655,761
Non-current liabilities		
Provisions	49,488	51,656
	49,488	51,656
Net assets	$ 608,730	$ 604,105
Capital and reserves		
Share capital	$ 1,247,302	$ 1,174,987
Reserve for share-based compensation	67,262	62,910
Deficit	(705,834)	(633,792)
	$ 608,730	$ 604,105

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,	
	2016	2015
Directors' emoluments		
Directors' fees	**$ 695**	$ 571
Salaries and allowances	**2,371**	1,812
Share-based compensation	**3,775**	668
	6,841	3,051
Other staff costs		
Salaries and other benefits	**6,184**	13,077
Contribution to retirement benefit scheme	**237**	291
Share-based compensation	**587**	1,638
	7,008	15,006
Total staff costs, including directors' emoluments	**13,849**	18,057
Less: staff costs capitalized to qualifying assets	**3,048**	5,748
	$ 10,801	$ 12,309

Details of the Directors' emoluments are as follows:

A3. Directors' emoluments

	For the twelve months ended December 31, 2016					
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	$ 84	$ 152	$ —	$ 1,059	$ —	$ 1,295
Michael Hibberd	80	—	—	1,171	—	1,251
Hong Luo	53	517	—	479	—	1,049
Qi Jiang	60	1,187	—	536	—	1,783
Qiping Men	29	515	—	476	—	1,020
Tseung Hok Ming	26	—	—	(26)	—	—
Jianzong Chen	40	—	—	15	—	55
Jimmy Hu	22	—	—	—	—	22
Zhefei Song	30	—	—	—	—	30
Robert Herdman	38	—	—	(26)	—	12
Gerald Stevenson	74	—	—	23	—	97
Raymond Fong	66	—	—	23	—	89
Yi He	31	—	—	15	—	46
Joanne Yan	33	—	—	15	—	48
Xijuan Jiang	29	—	—	15	—	44
	$ 695	$ 2,371	$ —	$ 3,775	$ —	$ 6,841

1. Mr. Men commenced as Executive Director on June 30, 2016.
2. Mr. He commenced as a non-executive director on June 30, 2016.
3. Mrs. Yan commenced as a non-executive director on June 30, 2016.
4. Mrs. Jiang commenced as a non-executive director on June 30, 2016
5. Mr. Tseung ceased as a director on June 30, 2016.
6. Mr. Hu ceased as a director on June 30, 2016.
7. Mr. Herdman ceased as director on June 30, 2016.
8. Mr. Song ceased as director on June 30, 2016.

	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.

A4. Five highest paid individuals

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

	For the year ended December 31, 2016	2015
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	—	—
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	—	—
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	1	—
HK$6,000,001 to HK$6,500,000	1	—
HK$6,500,001 to HK$7,000,000	1	—
>HK$7,000,000	2	1

For the year ended December 31, 2016, the conversion factor used in the above table is 1C$ = 5.86 HK$ (year ended December 31, 2015, 1C$ = 6.07 HK$)

The five highest paid individuals includes five directors of the Company and two key management executives of the Company for the year ended December 31, 2016 (for the year ended December 31, 2015 there were two directors and three key management executives). Since the directors' emoluments are disclosed above, the compensation of the two key management executives for the Company is as follows:

	For the year ended December 31, 2016	2015
Salaries and other benefits	$ 273	$ 1,233
Contributions to retirement benefits scheme	2	5
Share-based compensation	33	210
	$ 308	$ 1,488

A5. Senior management remuneration by band

The emoluments fell within the following bands:

	For the year ended December 31,	
	2016	2015
HK$ nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	—
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	**—**	1
HK$3,000,001 to HK$3,500,000	**—**	—
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	**1**	—
HK$6,000,001 to HK$6,500,000	**1**	—
HK$6,500,001 to HK$7,000,000	**—**	—
>HK$7,000,000	**2**	1

For the year ended December 31, 2016, the conversion factor used in the above table is 1C$ = 5.86 HK$ (year ended December 31, 2015, 1C$ = 6.07 HK$)

The table above includes the remuneration for the executive directors and executive officers of the Company. As at December 31, 2016, $0.1 million (2015—$0.1 million) was the total payable to 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
Mr. Qiping Men

Non-Executive Directors:

Mr. Michael J. Hibberd *(Vice-Chairman)*
Ms. Xijuan Jiang
Mr. Linna Liu

Independent Non-Executive Directors:

Mr. Gerald F. Stevenson
Mr. Raymond S. Fong
Mr. Yi He
Ms. Joanne Yan

JOINT COMPANY SECRETARIES:

Mr. Wing Kai Yuen

AUTHORIZED REPRESENTATIVES:

Mr. Wing Kai Yuen

AUDITORS:

Deloitte LLP

AUDIT COMMITTEE:

Mr. Gerald F. Stevenson *(Chairman)*
Mr. Raymond S. Fong
Mr. Yi He
Ms. Joanne Yan

COMPENSATION COMMITTEE:

Mr. Kwok Ping Sun *(Chairman)*
Mr. Raymond S. Fong
Ms. Joanne Yan

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. Yi He
Ms. Joanne Yan

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GLJ Petroleum Consultants Limited

PRINCIPAL BANKERS:

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

LEGAL ADVISERS:

Dentons Canada LLP
Robertsons Solicitors

WEBSITE:

www.sunshineoilsands.com

PLACE OF SHARE LISTING AND STOCK CODE:

The Stock Exchange of Hong Kong Limited: 2012