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)

## ANNOUNCEMENT OF RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2018 AND AN UPDATE ON WEST ELLS PROGRESS

Sunshine Oilsands Ltd. is pleased to announce its financial results for the first quarter ended March 31, 2018. Please see the attached announcement for further information.

By Order of the Board of Sunshine Oilsands Ltd.

**Sun Kwok Ping**
*Executive Chairman*

Hong Kong, May 11, 2018
Calgary, May 11, 2018

*As at the date of this announcement, the Board consists of Mr. Kwok Ping Sun and Ms. Gloria Pui Yun Ho as executive directors; Mr. Michael John Hibberd, Mr. Hong Luo, Ms. Linna Liu and Ms. Xijuan Jiang as non-executive directors; and Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He as independent non-executive directors.*

**For identification purposes only*

# Sunshine Oilsands Ltd.
# Announcement of Results for the First Quarter ended March 31, 2018 and an Update on West Ells Progress

**CALGARY/HONG KONG** – Sunshine Oilsands Ltd. (the "**Corporation**" or "**Sunshine**") (HKEX: 2012) today announced its financial results for the first quarter ended March 31, 2018. The Corporation's condensed consolidated interim financial statements, notes to the condensed consolidated interim financial statements and management's discussion and analysis have been filed on SEDAR (www.sedar.com) and with The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (www.hkexnews.hk) and are available on the Corporation's website (www.sunshineoilsands.com). All figures used in this release are in Canadian dollars unless otherwise stated.

## MESSAGE TO SHAREHOLDERS

For three months ended March 31, 2018, the Company's average bitumen production was 2,036 bbls/day. Diluent was blended at an 18.2% volumetric rate with the bitumen as part of the production process to create the marketable "Dilbit" blend product, and the average dilbit sales volume was 2,660 bbls/day in the first quarter of 2018.

During the first quarter of 2018, the temporary widened differential between West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") prices put significant downward pressure on realizable prices for dilbit. Production was therefore constrained in the first quarter in order to minimize operating losses while ensuring the facilities operated efficiently. Since the end of the first quarter, the differential has narrowed significantly.

### Sunshine's Capital Raising Activities during 1Q18

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD $0.272 per share (approximately CAD $0.043 per common share), for gross proceeds of HKD $22.0 million (approximately CAD $3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $0.7 million (approximately CAD $0.1 million), was incurred in relation to the closing.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD $0.244 per share (approximately CAD $0.039 per common share), for gross proceeds of HKD $30.0 million (approximately CAD $4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD $0.244 per share for gross proceeds of HKD $28.3 million (approximately CAD $4.6 million) of this subscription agreement. In addition, a placing commission of HKD $0.9 million (approximately CAD $0.14 million), was incurred in relation to the closing. The subscription agreement expired on February 13, 2018 and hence the time to close the remaining 6,147,500 class "A" common shares lapsed.

On February 28, 2018 the Company entered into a subscription agreement for a total of 102,436,500 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $25.1 million (approximately CAD $4.1 million). A payment of CAD $455,005 cash is to be made. On March 14, 2018 the Company completed the closing of this subscription agreement and a payment of $227,502 was made with the remaining balance due within 45 days after signing the agreement. This subscription agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018 the Company entered into a subscription agreement for a total of 20,393,059 class “A” common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $5.0 million (approximately CAD $0.8 million). On March 14, 2018 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with independent third parties.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan, the total loans amount were HKD $33.3 million (approximately CAD $5.4 million). As at March 31, 2018, all the loans and interests were paid in full.

**Summary of Financial Figures**

As at March 31, 2018 and December 31, 2017, the Corporation notes the following selected balance sheet figures.

| *(Canadian $000s)* | **March 31, 2018** | December 31, 2017 |
|---|---:|---:|
| Cash | 1,518 | 3,671 |
| Trade and other receivables | 5,701 | 4,932 |
| Prepaid expense and deposits | 1,616 | 1,110 |
| Exploration and evaluation assets | 268,463 | 268,227 |
| Property, plant and equipment | 504,341 | 507,416 |
| Total liabilities | 444,781 | 428,787 |
| Shareholders’ equity | 336,858 | 356,569 |

**2018 Outlook**

Sunshine sees a brightening outlook as international oil prices stabilize and steadily increase and the heavy price differential narrows. The Company will continue to focus on cost controls and on carefully improving production performance as SAGD chambers mature, which will increase production at West Ells. Since the end of the first quarter, realizable dilbit prices have increased significantly. After the planned five day West Ells plant turnaround in May 2018, the Company intends to ramp up production in an environment that is expected to achieve increasingly positive operating dilbit netbacks.

**Kwok Ping Sun**
*Executive Chairman*

**Gloria Ho**
*Chief Financial Officer*

**ABOUT SUNSHINE OILSANDS LTD.**

The Corporation is a Calgary based public corporation, listed on the Hong Kong Stock Exchange since March 1, 2012. The Corporation is focused on the development of its significant holdings of oil sands and heavy oil leases in the Athabasca oil sands region. The Corporation owns interests in oil sands and petroleum and natural gas leases in the Athabasca region of Alberta. The Corporation is currently focused on executing milestone undertakings in the West Ells project area. West Ells Phase 1 is operational and has an initial production target of 5,000 barrels per day.

For further enquiries, please contact:

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## FORWARD LOOKING INFORMATION

This announcement contains forward-looking information relating to, among other things, (a) the future financial performance and objectives of Sunshine; (b) the plans and expectations of the Corporation; and (c) the anticipated closings of the current private placements and the timing thereof. Such forward-looking information is subject to various risks, uncertainties and other factors. All statements other than statements and information of historical fact are forward-looking statements. The use of words such as “estimate”, “forecast”, “expect”, “project”, “plan”, “target”, “vision”, “goal”, “outlook”, “may”, “will”, “should”, “believe”, “intend”, “anticipate”, “potential”, and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on Sunshine’s experience, current beliefs, assumptions, information and perception of historical trends available to Sunshine, and are subject to a variety of risks and uncertainties including, but not limited to, those associated with resource definition and expected reserves and contingent and prospective resources estimates, unanticipated costs and expenses, regulatory approval, fluctuating oil and gas prices, expected future production, the ability to access sufficient capital to finance future development and credit risks, changes in Alberta’s regulatory framework, including changes to regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws or regulations and the impact thereof and the costs associated with compliance. Although Sunshine believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the assumptions and factors discussed in this announcement are not exhaustive and readers are not to place undue reliance on forward-looking statements as the Corporation’s actual results may differ materially from those expressed or implied. Sunshine disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise, subsequent to the date of this announcement, except as required under applicable securities legislation. The forward-looking statements speak only as at the date of this announcement and are expressly qualified by these cautionary statements. Readers are cautioned that the foregoing lists are not exhaustive and are made as at the date hereof. For a full discussion of the Corporation’s material risk factors, see the Corporation’s annual information form for the year ended December 31, 2017 and risk factors described in other documents we file from time to time with securities regulatory authorities, all of which are available on the Hong Kong Stock Exchange at www.hkexnews.hk, on the SEDAR website at www.sedar.com or the Corporation’s website at www.sunshineoilsands.com.

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SUNSHINE OILSANDS LTD.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the three months ended March 31, 2018**

## Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three months ended March 31, 2018 is dated May 10, 2018, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2018 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.*

### Overview

Sunshine is a holder and a developer of Athabasca region oil sands resources with approximately 1.24 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2017 was approximately 2.07 billion barrels. The Company also has 264 million barrels of proved plus probable ("2P") reserves and 373 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2017. The Company did not conduct an evaluation of its Carbonate assets given the expected commodity prices 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 petroleum and natural gas 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 has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

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"). When financing is available, the Company is planning to add an additional 5,000 barrels per day Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at March 31, 2018, the Company had invested approximately $1.29 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at March 31, 2018, the Company had $1.5 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 operations 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 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.

### Operational Update

#### *West Ells*

On March 1, 2017, the Company achieved a key milestone. The Project commenced commercial production. Hence, effective March 1, 2017, the Company started recording revenue, royalties, expenses and depletion of the West Ells Project.

For three months ended March 31, 2018, the Company's average bitumen production was 2,036 bbls/day. Diluent was blended at an 18.2% volumetric rate with the bitumen as part of the production process to create the marketable "Dilbit" blend product, and the average dilbit sales volume was 2,660 bbls/day in the first quarter of 2018.

During the first quarter of 2018, the temporary widened differential between West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") prices put significant downward pressure on realizable prices for dilbit. Production was therefore constrained in the first quarter in order to minimize operating losses while ensuring the facilities operated efficiently. Since the end of the first quarter of 2018, the differential has narrowed significantly.

**Operational Update (continued)**

***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 2018. Once the Thickwood and Legend Lake's 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 due to low oil prices.

**Summary of Quarterly Results**

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

| ($ thousands except per share & bbl/d) | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 |
|---|---|---|---|---|---|---|---|---|
| Bitumen sales (bbl/d)[1] | 2,174 | 2,253 | 1,781 | 1,696 | 1,837 | - | - | - |
| Petroleum sales | 11,258 | 13,209 | 8,781 | 8,907 | 3,005 | - | - | - |
| Royalties | 114 | 126 | 36 | 86 | 20 | - | - | - |
| Diluent | 3,896 | 4,395 | 2,551 | 2,723 | 1,090 | - | - | - |
| Transportation | 4,527 | 4,391 | 3,272 | 3,264 | 1,153 | - | - | - |
| Operating costs | 5,671 | 5,733 | 5,547 | 6,360 | 2,216 | - | - | - |
| Finance cost | 15,348 | 21,095 | 11,687 | 13,974 | 14,467 | 13,901 | 18,606 | 15,415 |
| Net loss | 32,831 | 228,443 | 12,761 | 19,479 | 21,169 | 23,237 | 26,564 | 20,736 |
| Per share - basic and diluted | 0.01 | 0.04 | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 | 0.00 |
| Capital expenditures[2] | 1,381 | 860 | 1,815 | 1,862 | 4,679 | 8,690 | 12,038 | 6,939 |
| Total assets | 781,639 | 785,356 | 980,947 | 991,696 | 1,000,484 | 997,590 | 985,274 | 974,881 |
| Working capital deficiency[3] | 385,244 | 368,593 | 343,136 | 333,488 | 325,736 | 319,304 | 314,853 | 311,024 |
| Shareholders' equity | 336,858 | 356,569 | 581,687 | 593,820 | 603,580 | 607,455 | 603,348 | 595,286 |

1. Bitumen sales volume for Q1 2017 only includes one month from March 1, 2017 to March 31, 2017.
2. Included payments for exploration and evaluation, property, plant and equipment.
3. The working capital deficiency includes the USD current portion of the Notes converted to CAD at each period end exchange rate.

**Results of Operations**

**Operating Netback**

| ($ thousands, except $/bbl) | For the three months ended March 31, 2018 | | 2017 | |
|---|---|---|---|---|
| Realized bitumen revenue | $ | 7,362 | $ | 1,915 |
| Transportation | | (4,527) | | (1,153) |
| Royalties | | (114) | | (20) |
| Net bitumen revenues | | 2,721 | | 742 |
| Operating costs | | (5,671) | | (2,216) |
| Operating cash flow | $ | (2,950) | $ | (1,474) |
| Operating netback ($ / bbl) | | (15.07) | | (26.47) |

1. Operating netback calculation for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.
2. Operating cash flow is a non-GAAP measure which is defined in the Advisory section of the MD&A.

### Operating Netback (continued)

The Operating cash flow for the three months ended March 31, 2018 and March 31, 2017 was a net loss of $3.0 million and $1.5 million respectively. The main contributing factor to the loss are the operating costs. The majority of the operating costs at West Ells are fixed in nature, as a result, the operating costs per barrel of production should be reduced as production continues to ramp up at West Ells.

### Bitumen Production

| | For the three months ended March 31, | |
|---|---|---|
| (Barrels/day) | 2018 | 2017 |
| Bitumen production | 2,036 | 1,796 |

1. Bitumen production for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.

### Bitumen Sales

| | For the three months ended March 31, | |
|---|---|---|
| (Barrels/day) | 2018 | 2017 |
| Bitumen sales | 2,174 | 1,837 |

1. Bitumen sales for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.

Bitumen production and sales at West Ells for the three months ended March 31, 2018 averaged 2,036 Bbls/day and 2,174 Bbls/day compared to 1,796 Bbls/day and 1,837 Bbls/day for the three months ended March 31, 2017, respectively.

### Petroleum Sales, net of royalties

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | | 2018 | | 2017 |
| Petroleum sales | $ | 11,258 | $ | 3,005 |
| Royalties | | (114) | | (20) |
| Petroleum sales, net of royalties | $ | 11,144 | $ | 2,985 |
| $ / bbl | | 56.95 | | 53.60 |

1. Petroleum sales, net of royalties for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.

Petroleum sales are from the sales of dilbit. Petroleum sales, net of royalties for the three months ended March 31, 2018 was $11.1 million compared to $3.0 million for the three month ended March 31, 2017. Petroleum sales increased by $8.3 million for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. Sales include three months of production for the three months ended March 31, 2018 where the same period in 2017 only included one month of production. On March 1, 2017, the West Ells Phase 1 commenced commercial production.

For the three months ended March 31, 2018, petroleum sales per barrel increased $3.35/bbl to $56.95 compared to $53.60/bbl for the three months ended March 31, 2017. The increase is mainly due to due higher WTI prices. However, after subtracting diluent blend costs, the realized bitumen revenue per barrel increased slightly from $34.39 to $37.62.

### Bitumen Realization

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | | 2018 | | 2017 |
| Dilbit revenue | $ | 11,258 | $ | 3,005 |
| Diluent blended[1] | | (3,896) | | (1,090) |
| Realized bitumen revenue[2] | $ | 7,362 | $ | 1,915 |
| $ / bbl | | 37.62 | | 34.39 |

1. Bitumen realization calculation for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.
2. Realized bitumen revenue is used to calculate operating netbacks.

**Bitumen Realization (continued)**

Bitumen realization represents the Company's realized petroleum revenue ("Dilbit revenue"), net of diluent expenses. Dilbit revenue represents the Company's revenue from its bitumen produced at West Ells project blended with purchased diluent. The cost of blending is impacted by the amount of diluent required and the Company's cost of purchasing and transporting the diluent. A portion of the diluent expense is effectively recovered in the sales price of the blended product.

During the three months ended March 31, 2018, the Company's bitumen realization revenue was $7.4 million compared to $1.9 million for the three months ended March 31, 2017. Bitumen realization increased by $5.4 million for the three months ended March 31, 2018 mainly due to having three months of production compared to the three months ended March 31, 2017 where there was only one month of production. For the three months ended March 31, 2018, the bitumen realized price per barrel increased $3.23/bbl to $37.62/bbl compared to $34.39/bbl for the three months ended March 31, 2017 mainly due to higher WTI prices, which were offset by higher diluent costs and a temporary widening of the differential between WTI and WCS prices.

**Diluent Costs**

| ($ thousands, except $/bbl and blend ratio) | For the three months ended March 31, 2018 | | 2017 | |
|---|---|---|---|---|
| Diluent | $ | 3,896 | $ | 1,090 |
| $ / bbl | | 19.91 | | 19.57 |
| Blend ratio | | 18.2% | | 20.9% |

1. Diluent purchased for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.

At West Ells, diluent is blended with the bitumen as part of the production process to create a marketable dilbit blend product at West Ells. Diluent expense is mainly impacted by the required amount, cost of purchasing and transporting diluent, Canadian and U.S. benchmark pricing, the timing of diluent inventory purchases and changes in value of the Canadian dollar relative to the U.S. dollar.

Diluent costs for the three months ended March 31, 2018 and March 31, 2017 was $3.9 million and $1.1 million, respectively. Diluent costs increased by $2.8 million for the three months ended March 31, 2018 mainly due to having three months of production compared to the three months ended March 31, 2017 as there was only one month of production. For the three months ended March 31, 2018, the diluent cost per barrel remained consistent at $19.91/bbl due to the lower blending ratio of 18.2% compared to 20.9% in the same period of 2017, offset by higher condensate prices.

**Transportation**

| ($ thousands, except $/bbl) | For the three months ended March 31, 2018 | | 2017 | |
|---|---|---|---|---|
| Transportation | $ | 4,527 | $ | 1,153 |
| $ / bbl | | 23.13 | | 20.71 |

1. Transportation costs for three months ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.

Transportation cost includes trucking costs for dilbit and pipeline terminals fees. The transportation expense in the three months ended March 31, 2018 and March 31, 2017 was $4.5 million and $1.2 million, respectively. Transportation costs increased by $3.4 million for the three months ended March 31, 2018 mainly due to having three months of production compared to the same period in 2017 where there was only one month of production. For the three months ended March 31, 2018, transportation cost per barrel increased $2.42/bbl to $23.13/bbl due to higher terminal costs compared to $20.71/bbl for the three months ended March 31, 2017.

## Operating Costs

| ($ thousands, except $/bbl) | | For the three months ended March 31, 2018 | | 2017 |
|---|---|---|---|---|
| Energy operating costs | $ | 1,374 | $ | 508 |
| Non-energy operating costs | | 4,297 | | 1,708 |
| Operating costs | $ | 5,671 | $ | 2,216 |
| $ / bbl | | 28.98 | | 39.79 |

1. Operating costs for three months ended March 31, 2018 only includes one month from March 1, 2017 to March 31, 2017.

Operating costs are comprised of the sum of non-energy operating costs and energy cost. Non-energy operating cost represents production-related operating activities, excluding energy operating costs. Energy operating costs represent the cost of natural gas for the production of steam and power at the West Ells facilities.

The Company's total operating costs were $5.7 million and $2.2 million for the three months ended March 31, 2018 and March 31, 3017 respectively. Operating costs increased by $3.5 million for the three months ended March 31, 2018 mainly due to having three months of production compared to the same period in 2017 where there was only one month of production. For the three months ended March 31, 2018, the $10.81/bbl decrease in operating costs is primarily the result of the efficiency gains and a continued focus on cost management in chemical, camp and services costs.

## General and Administrative Costs

| | | For the three months ended March 31, 2018 | | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands) | | **Total** | **Capitalized** | **Expensed** | | **Total** | **Capitalized** | **Expensed** |
| Salaries, consulting and benefits | $ | 1,617 | - | 1,617 | $ | 2,618 | 232 | 2,386 |
| Rent | | 553 | - | 553 | | 615 | 151 | 464 |
| Legal and audit | | 130 | - | 130 | | 564 | - | 564 |
| Other | | 713 | - | 713 | | 919 | 17 | 902 |
| Total | $ | 3,013 | - | 3,013 | $ | 4,716 | 400 | 4,316 |

Effective March 1, 2017, the Company ceased the capitalization of portions of general and administrative costs. The Company capitalized a portion of general and administrative costs related to capital investment for the first two months of 2017. For the three months ended March 31, 2018, the amount of $Nil was capitalized compared to $0.4 million for the same period in 2017.

The Company's general and administrative costs were $3.0 million and $4.3 million for the three months ended March 31, 2018 and March 31, 3017, respectively. General and administrative costs decreased by $1.3 million for the three months ended March 31, 2018 primarily due to workforce reductions and the Company's continued focus on cost management.

## Finance Costs

| ($ thousands) | | For the three months ended March 31, 2018 | | 2017 |
|---|---|---|---|---|
| Interest expense on senior notes | $ | 8,943 | $ | 8,960 |
| Interest expense on other loans | | 101 | | - |
| Redemption/yield maintenance premium | | 4,647 | | 4,722 |
| Financing related costs | | - | | 505 |
| Other interest expense | | 1,387 | | 6 |
| Unwinding of discounts on provisions | | 270 | | 274 |
| Finance costs | $ | 15,348 | $ | 14,467 |

For the three month period ended March 31, 2018, finance costs increased by $0.9 million as a result of an increase of $1.4 million attributed to other interest expense, an increase of $0.1 million attributed to interest on other loans; offset

**Finance Costs (continued)**

by a decrease of $0.1 million for the yield maintenance premium and a decrease of $0.5 million relating to finance related costs compared to the same period in 2017.

**Share-based Compensation**

| | For the three months ended March 31, 2018 | | | For the three months ended March 31, 2017 | | |
|---|---|---|---|---|---|---|
| ($ thousands) | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Share-based compensation | $ 368 | - | 368 | $ 996 | 17 | 979 |

Share-based compensation expense for the three months ended March 31, 2018 was $0.4 million compared to $1.0 million for the same period in 2017. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its condensed consolidated interim financial statements. Fair value is determined using the Black-Scholes option pricing model.

Effective March 1, 2017, the Company ceased the capitalization of portions of the share-based compensation costs. The Company capitalized a portion of the share-based compensation using the same methodology associated with capitalized salaries and benefits. For the three months ended March 31, 2018, the Company capitalized $Nil compared to $0.02 million of share-based compensation for the same period in 2017.

**Depletion and Depreciation**

| ($ thousands, except $/bbl) | For the three months ended March 31, 2018 | 2017 |
|---|---|---|
| Depletion | $ 4,037 | $ 1,743 |
| Depreciation | 134 | 123 |
| Depletion and depreciation | $ 4,171 | $ 1,866 |
| Depletion ($ / bbl) | 20.63 | 30.60 |

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at that time, the Company ceased capitalization of petroleum revenue, royalties, diluent, transportation, and operating expenses relating to West Ells Project I and has included these amounts in the statement of comprehensive income (loss) for the three months ended March 31, 2018.

The Company started recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three months ended March 31, 2017. The depletion rate is based on unit-of-production. Depletion and depreciation expense was $4.2 million and $1.9 million for each of the three month period ended March 31, 2018 and 2017. Depletion and depreciation expense increased by $2.3 million for the three months ended March 31, 2018 mainly due to having three months of production compared to the same period in 2017 where there was only one month of production. For the three months ended March 31, 2018, depletion per barrel decreased $9.97/bbl to $20.63/bbl mainly due to the lower future development cost and impairment recorded in the fourth quarter of 2017 compared to $30.60/bbl for the three months ended March 31, 2017.

As at March 31, 2018, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the E&E Assets or the West Ells CGU.

**Income Taxes**

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three months ended March 31, 2018 and 2017. 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 March 31, 2018, the Company had total available tax deductions of approximately $1.50 billion, with unrecognized tax losses that expire between 2029 and 2038.

**Liquidity and Capital Resources**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Working capital deficiency | $ | 385,244 | $ | 368,593 |
| Shareholders' equity | | 336,858 | | 356,569 |
| | $ | 722,102 | $ | 725,162 |

1. Senior secured notes in the amount of $256.1 million, plus accrued and unpaid amounts are considered current as at March 31, 2018 and have been included in the working capital deficit based on the Sep. 27, 2017 conditions to extend the maturity date to August 1, 2018.

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.

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 forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term 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 of $19.1 million due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD $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 Company 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 Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Forebearing Holders. The Forebearing Holders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made 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;
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD $5.2 million was paid;
- Sunshine agreed to repurchase and the Forebearing Holders agreed to sell up to USD $8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million to 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 Forebearing Holders 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 September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of USD $0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of USD $1.8 million by October 30, 2017;Repayment of USD $5.0 million and USD $15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD $5.0 million within 45 days after signing the Amended FA;
- The Company is to obtain financing of USD $5.0 million every quarter.

**Liquidity and Capital Resources (continued)**

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD $1.8 million on October 30, 2017, USD $5.0 million on February 1, 2018 and USD $15.0 million on May 1, 2018.

As Sunshine did not meet the aforementioned covenants and payment requirements, the senior notes contractually become due. The outstanding balance is presented as a current liability as at March 31, 2018.

The Forbearing Holders have not requested early repayment of the senior notes as of the date when these condensed consolidated interim financial statements were approved by the Board of Directors.

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.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US$5.0 million to US$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of March 31, 2018, the Company had incurred unsecured third party debt for a total of US$2.7 million (CDN$3.5 million equivalent) which is considered Permitted Debt. As at March 31, 2018, the related party debt of US$4.3 million (CDN$5.4 million equivalent) and interest were paid in full.

The Company has presented the Notes and Loans as a current liability on Condensed Consolidated Interim Statements of Financial Position as at March 31, 2018.

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 March 31, 2018, the Company had incurred $14.0 million (USD $10.8 million equivalent using the period 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 $1USD = $1.2894 CAD.

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 ended March 31, 2018, the Company reported a net loss of $32.8 million. At March 31, 2018, the Company had a working capital deficiency of $385.2 million including senior notes of $256.1 million and an accumulated deficit of $1,021.8 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 57% as at March 31, 2018, compared to 55% as at December 31, 2017.

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, HK dollars and/or Chinese renminbi.

**Liquidity and Capital Resources (continued)**

For the three months ended March 31, 2018, the Company had a foreign exchange loss of $7.0 million compared to a $1.9 million gain in the same period in 2017. The change in foreign exchange for the three month period ended March 31, 2018, was primarily due to a $6.9 million unrealized loss on translation of the US denominated Notes, a $0.1 millionunrealized loss on the HKD denominated loans, a $0.1 million unrealized loss on USD and HKD denominated accounts payable, offset by a $0.1 million realized gain on the HKD denominated shareholder loans that were paid in full.

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 ended March 31, 2018. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2018 would have been impacted by $Nil and the carrying value of the senior notes at March 31, 2018 would have been impacted by $2.6 million. At March 31, 2018, the Company held approximately USD $0.01 million or $0.013 million of cash, using the March 31, 2018 exchange rate of $1US= $1.2894CAD, as 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 held at March 31, 2018 would have been impacted by approximately $Nil and the carrying value of the debt at March 31, 2018 would have been impacted by $0.03 million At March 31, 2018, the Company held, after recent equity closings, approximately HKD $0.4 million or $0.07 million using the March 31, 2018 exchange rate of $1CAD=$6.0865HKD, as cash in the Company's HKD bank account.

For Chinese renminbi amounts, exchange rates to convert from Chinese renminbi to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2018 would have been impacted by approximately $Nil. At March 31, 2018, the Company held approximately CNY $1.9 million or $0.4 million using the March 31, 2018 exchange rate of $1CAD=$4.8780CNY, as cash in the Company's CNY bank account.

**Commitments and Contingencies**

Management estimated the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Company's commitments and contingencies, please refer the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2018 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017.

**Transactions with Related Parties**

For the three months ended March 31, 2018, a consulting company, to which a director of Sunshine is related, charged the Company $0.14 million (March 31, 2017 – $0.14 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,660,897,000 common shares of the Company which represents approximately 27.9% of the Company's outstanding common shares.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan, the total loans amount were HKD $33.3 million (approximately CAD $5.4 million). As at March 31, 2018, all the Loan and interests were paid in full.

**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 March 31, 2018, the Company did not have any other off-balance sheet arrangements.

**Subsequent Events**

On February 28, 2018 and March 2, 2018, the Company entered into two subscription agreements for a total of 122,829,559 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common

**Subsequent Events (continued)**

share), for gross proceeds of HKD $30.1 million (approximately CAD $4.9 million). A payment of CAD $455,005 cash was to be made. On March 14, 2018, the Company completed the closing of these subscription agreements and a payment of $227,502 was made with the remaining balance due within 45 days after signing the agreement. On April 10, 2018, the remaining payment of $227,502 was paid and the settlement of indebtedness with the independent third parties is paid in full. These subscription agreements were entered into for settlement of indebtedness with independent third parties.

On May 6, 2018, the Company accepted the resignation of Mr. Qiping Men as the Chief Executive Officer ("CEO") and Executive Director, effective immediately. As Executive Chairman, Mr. Kwok Ping Sun has assumed direct responsibilities for all CEO tasks and functions.

**Changes in Accounting Policies**

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 adopted IFRS 2 on January 1, 2018 and did not have a material impact on the Company's Condensed Consolidated Interim 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. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. The Company requires additional disclosures to disclose disaggregated revenue by product type and is presented in the Condensed Consolidated Interim Financial Statements in Note 14.

Revenue from the sale of crude oil is recognized based on the consideration specified in contracts with customers and when control of the product transfers to the customer and collection is reasonably assured. The crude oil revenue is based on floating prices specified in the contract and the revenue is recognized when it transfers control of the product to a customer. The sales or transaction price of the Company's crude oil to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalization adjustments. The revenue is collected on the 25th day of the month following production.

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. In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments" which details the new general hedge accounting model. 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 adopted IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 has three principal classification categories for financial assets being measured at amortized costs, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL").

Under IFRS 9, financial assets such as cash and cash equivalents and trade and other receivables are classified and measured at amortized cost; financial assets such as financial instrument commodity contracts and financial instrument contracts are classified and measured at FVOCI as the assets are held with the objective to both collect contractual cash flows and sell the financial instrument; and all other financial assets are classified and measured at FVTPL. Financial liabilities are classified and measured at amortized costs or FVTPL. The Company's trade payables, accrued liabilities, loans and senior notes are classified and measured at amortized costs. There were no adjustments to the carrying values of the Company's financial instruments with the change in classification to IFRS 9. The classification and measurement of financial instruments did not have an impact on the Company's retained earnings as at January 1, 2018.Changes in Accounting Policies (continued)

On December 8, 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration which is a new interpretation and clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration

**Changes in Accounting Policies (continued)**

in a foreign currency. The adoption of IFRS 22 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

*Future accounting policy changes*

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 is currently evaluating the impact of the standard on the Company's financial statements.

**Critical Accounting Policies and Estimates**

The Company's critical accounting estimates are those estimates having a significant impact on the Company's financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change.

For a detailed discussion regarding to the Company's critical accounting policies and estimates, please refer to the Company's 2017 annual MD&A.

**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, 2017, which is available at www.sedar.com. The 2017 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 2017 Annual Information Form is available at www.sedar.com.

**Disclosure Controls and Procedures**

Kwok Ping Sun, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, Executive Director of the Board and 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.

**Internal Controls over Financial Reporting**

Kwok Ping Sun, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, Executive Director of the Board and 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).

No material changes in the Company's ICFR were identified during the three months period ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or

**Internal Controls over Financial Reporting (continued)**

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.

## ADVISORY SECTION

### Non-GAAP Measures

This MD&A includes references to certain measures which do not have a standardized meaning as prescribed by IFRS, such as “operating netbacks” and “funds from operations”, and therefore are considered non-GAAP measures. These non-GAAP measures are commonly used in the oil and gas industry and the Company believes including such measures is useful to investors. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to measures calculated in accordance with IFRS as, given the non-standardized meanings, these measures may not be comparable to similar measures presented by other issuers.

***Cash Flow Used in Operations***

Cash flow used in operations is non-GAAP measure utilized by the Company to analyze operating performance and liquidity. Cash flow used in operations excludes the net change in non-cash operating working capital and decommissioning expenditures while the IFRS measurement “Net cash used in operating activities” includes these items. Cash flow used in operations is reconciled to Net cash used in operating activities in the table below:

| | Three Month Ended March 31 | |
|---|---|---|
| ($ thousands) | 2018 | 2017 |
| Net cash used in operating activities | $ (7,893) | $ (2,477) |
| Add (deduct) | | |
| Net change in non-cash operating working capital items | 2,110 | (3,323) |
| Cash flow used in operations | $ (5,783) | $ (5,800) |

### 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.

**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.

**Movements in Stock Options**

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Company during the period ended March 31, 2018.

| Name | December 31, 2017 | Granted | Exercised | Forfeited | Expired | March 31, 2018 |
|---|---|---|---|---|---|---|
| Kwok Ping Sun | 46,679,000 | - | - | - | - | 46,679,000 |
| Michael Hibberd | 46,679,000 | - | - | - | - | 46,679,000 |
| Hong Luo | 23,000,000 | - | - | - | - | 23,000,000 |
| Gloria Ho | 5,000,000 | - | - | - | - | 5,000,000 |
| Qiping Men[(1)] | 22,555,556 | - | - | - | - | 22,555,556 |
| Raymond Fong | 2,500,000 | - | - | - | - | 2,500,000 |
| Yi He | 2,500,000 | - | - | - | - | 2,500,000 |
| Joanne Yan | 2,500,000 | - | - | - | - | 2,500,000 |
| Linna Liu | - | - | - | - | - | - |
| Jingfang Liu | - | - | - | - | - | - |
| Xijuan Jiang | 1,000,000 | - | - | - | - | 1,000,000 |
| Sub-total for Directors | 152,413,556 | - | - | - | - | 152,413,556 |
| Sub-total for other share option holders | 43,021,969 | - | - | (1,916,179) | - | 41,105,790 |
| **Total** | 195,435,525 | - | - | (1,916,179) | - | 193,519,346 |

Note 1: Mr. Men resigned as CEO and Executive Director of the Company on May 7, 2018.

Please refer to our consolidated financial statements included in the 2017 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2017.

***Fair Value of Share Options Granted***

The weighted average fair value of the share options granted for the period ended March 31, 2018 was Nil (year ended December 31, 2017 - $0.05). 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 2018 and 2017.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the three months ended March 31, 2018 and year ended December 31, 2017.

| Input Variables | Three month period ended March 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Grant date share price ($) | - | 0.044-0.05 |
| Exercise Price ($) | - | 0.044-0.05 |
| Expected volatility (%) | - | 73.22-74.72 |
| Option life (years) | - | 3.76-3.79 |
| Risk-free interest rate (%) | - | 0.93-1.23 |
| Expected forfeitures (%) | - | 14.64-14.76 |

**Purchase, Sale or Redemption of Sunshine's Listed Securities**

*Class "A" Common Shares*

***General mandate***

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD $0.272 per share (approximately CAD $0.043 per common share), for gross proceeds of HKD $22.0 million (approximately CAD $3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $0.7 million (approximately CAD $0.1 million), was incurred in relation to the Closing.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD $0.244 per share (approximately CAD $0.039 per common share), for gross proceeds of HKD $30.0 million (approximately CAD $4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD $0.244 per share for gross proceeds of HKD $28.3 million (approximately CAD $4.6 million) of this subscription agreement. In addition, a placing commission of HKD $0.9 million (approximately CAD $0.14 million), was incurred in relation to the Closing. The subscription agreement expired on February 13, 2018 and hence the time to close the remaining 6,147,500 class "A" common shares lapsed.

On February 28, 2018 the Company entered into a subscription agreement for a total of 102,436,500 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $25.1 million (approximately CAD $4.1 million). A payment of CAD $455,005 cash is to be made. On March 14, 2018 the Company completed the closing of this subscription agreement and a payment of $227,502 was made with the remaining balance due within 45 days after signing the agreement. This subscription agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018 the Company entered into a subscription agreement for a total of 20,393,059 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $5.0 million (approximately CAD $0.8 million). On March 14, 2018 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with independent third parties.

**Shares Outstanding**

As at May 10, 2018, the Company had 5,948,393,172 Class "A" common shares issued and outstanding.

### Employees

As at March 31, 2018, the Company has 53 full-time employees. For the three months ended March 31, 2018, total staff costs amounted to $1.6 million.

### Dividends

The Company has not declared or paid any dividends in respect of the three months period ended March 31, 2018 (three months period ended March 31, 2017 - $Nil).

### Review of Interim Results

The condensed consolidated interim financial statements for the Company for the three months ended March 31, 2018, were reviewed by the Audit Committee of the Company 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.*

### Outlook

Sunshine sees a brightening outlook as international oil prices stabilize and steadily increase and the heavy price differential narrows. The Company will continue to focus on cost controls and on carefully improving production performance as SAGD chambers mature, which will increase production at West Ells. Since the end of the first quarter, realizable dilbit prices have increased significantly. After the planned five day West Ells plant turnaround in May 2018, the Company intends to ramp up production in an environment that is expected to achieve increasingly positive operating dilbit netbacks.

阳光油砂
SUNSHINE OILSANDS LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three months ended March 31, 2018 and 2017**

**NOTICE OF NO AUDITOR REVIEW OF**
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the Condensed Consolidated Interim Financial Statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

SUNSHINE OILSANDS LTD.

**Condensed Consolidated Interim Statements of Financial Position**
*(Unaudited, expressed in thousands of Canadian dollars)*

| For the three months ended March 31, | Notes | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| *Current assets* | | | | | |
| Cash | 4 | $ | 1,518 | $ | 3,671 |
| Trade and other receivables | 5 | | 5,701 | | 4,932 |
| Prepaid expenses and deposits | | | 1,616 | | 1,110 |
| | | | 8,835 | | 9,713 |
| *Non-current assets* | | | | | |
| Exploration and evaluation | 6 | | 268,463 | | 268,227 |
| Property, plant and equipment | 7 | | 504,341 | | 507,416 |
| | | | 772,804 | | 775,643 |
| | | $ | 781,639 | $ | 785,356 |
| **Liabilities and Shareholders' Equity** | | | | | |
| *Current liabilities* | | | | | |
| Trade and accrued liabilities | 8 | $ | 134,415 | $ | 120,316 |
| Loans | 9 | | 3,532 | | 3,452 |
| Shareholders loans | 19 | | - | | 5,339 |
| Senior notes | 9 | | 256,132 | | 249,199 |
| | | | 394,079 | | 378,306 |
| *Non-current liabilities* | | | | | |
| Provisions | 10 | | 50,702 | | 50,481 |
| | | | 444,781 | | 428,787 |
| **Shareholders' Equity** | | | | | |
| Share capital | 12 | | 1,287,760 | | 1,275,008 |
| Reserve for share-based compensation | 13 | | 70,890 | | 70,522 |
| Deficit | | | (1,021,792) | | (988,961) |
| | | | 336,858 | | 356,569 |
| | | $ | 781,639 | $ | 785,356 |

**Going concern (Note 2)**
Commitments and contingencies (Note 21)
Subsequent events (Note 23)

Approved by the Board

*"Joanne Yan"*
Independent Non-Executive Director

*"Kwok Ping Sun"*
Executive Director

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

**Condensed Consolidated Interim Statements of Operations and Comprehensive Loss**
*(Unaudited, expressed in thousands of Canadian dollars, except for per share amounts)*

| For the three months ended March 31, | Notes | | 2018 | | 2017 |
|---|---|---|---|---|---|
| Petroleum sales, net of royalties | 14.1 | $ | 11,144 | $ | 2,985 |
| Other income | 14.2 | | 1 | | 5 |
| | | | 11,145 | | 2,990 |
| *Expenses* | | | | | |
| Diluent | | | 3,896 | | 1,090 |
| Transportation | | | 4,527 | | 1,153 |
| Operating | | | 5,671 | | 2,216 |
| Depletion and depreciation | 6,7 | | 4,171 | | 1,866 |
| General and administrative | 15 | | 3,013 | | 4,316 |
| Finance costs | 16 | | 15,348 | | 14,467 |
| Stock based compensation | 13.2 | | 368 | | 979 |
| Foreign exchange (gains)/losses | 18.3 | | 6,982 | | (1,928) |
| | | $ | 43,976 | $ | 24,159 |
| Loss before income taxes | | | (32,831) | | (21,169) |
| Income taxes | 11 | | - | | - |
| Net loss and comprehensive loss for the period attributable to equity holders of the Company | | $ | (32,831) | $ | (21,169) |
| Basic and diluted loss per share | 17 | $ | (0.01) | $ | (0.00) |

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**
*(Unaudited, expressed in thousands of Canadian dollars)*

| | Notes | Share capital | Reserve for share based compensation | Deficit | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2017 | | $ 1,275,008 | $ 70,522 | $ (988,961) | $ 356,569 |
| Net loss and comprehensive loss for the period | | - | - | (32,831) | (32,831) |
| Issue of common shares | 12.1 | 12,996 | - | - | 12,996 |
| Share issue costs, net of deferred tax ($Nil) | 12.1 | (244) | - | - | (244) |
| Recognition of share-based compensation | 13.2 | - | 368 | - | 368 |
| **Balance, March 31, 2018** | | $ 1,287,760 | $ 70,890 | $ (1,021,792) | $ 336,858 |
| | | | | | |
| Balance, December 31, 2016 | | $ 1,247,302 | $ 67,262 | $ (707,109) | $ 607,455 |
| Net loss and comprehensive loss for the period | | - | - | (21,169) | (21,169) |
| Issue of common shares | 12.1 | 16,741 | - | - | 16,741 |
| Share issue costs, net of deferred tax ($Nil) | 12.1 | (443) | - | - | (443) |
| Recognition of share-based compensation | 13.2 | - | 996 | - | 996 |
| **Balance, March 31, 2017** | | $ 1,263,600 | $ 68,258 | $ (728,278) | $ 603,580 |

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

**Condensed Consolidated Interim Statements of Cash Flows**
*(Unaudited, expressed in thousands of Canadian dollars)*

| For the three months ended March 31, | Notes | 2018 | 2017 Restated |
|---|---|---|---|
| *Cash flows used in operating activities* | | | |
| Net loss for the period | | $ (32,831) | $ (21,169) |
| Finance costs | | 15,348 | 14,467 |
| Unrealized foreign exchange (gains)/losses | 18.3 | 7,072 | (1,938) |
| Interest income | | (1) | (5) |
| Depletion and depreciation | 6,7 | 4,171 | 1,866 |
| Share-based compensation | 13.2 | 368 | 979 |
| Movement in non-cash working capital | 22 | (2,110) | 3,323 |
| **Net cash used in operating activities** | | (7,983) | (2,477) |
| *Cash flows used in investing activities* | | | |
| Interest received | | 1 | 5 |
| Payments for exploration and evaluation assets | 6 | (233) | (227) |
| Payments for property, plant and equipment | 7 | (1,148) | (4,452) |
| Movement in non-cash working capital | 22 | (198) | (1,901) |
| **Net cash used in investing activities** | | (1,578) | (6,575) |
| *Cash flows provided in financing activities* | | | |
| Proceeds from issue of common shares | 12.1 | 12,996 | 16,741 |
| Interest paid | 9 | (30) | (7,220) |
| Payment for share issue costs | 12.1 | (244) | (443) |
| Repayment of shareholder loans | 19 | (5,339) | - |
| **Net cash provided by financing activities** | | 7,383 | 9,078 |
| Effect of exchange rate changes on cash held in foreign currency | 18.3 | 25 | (785) |
| Net increase / (decrease) in cash | | (2,153) | (759) |
| Cash, beginning of period | | 3,671 | 13,635 |
| **Cash, end of period** | | $ 1,518 | $ 12,876 |

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

**1. Company information**

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

On May 4, 2012, Sunshine Oilsands (Hong Kong) Limited ("Sunshine Hong Kong") was incorporated in Hong Kong and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Sunshine Hong Kong is 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Hong Kong.

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 March 31, 2018, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

On March 24, 2017, Sang Xiang Petroleum & Chemical (Shanghai) Limited ("Sunshine Shanghai") was incorporated in China and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Sunshine Shanghai is Building 1, Level 6, Room 41, 39 Jia Tai Road, the China (Shanghai) Pilot Free Trade Zone. The purpose of Shanghai 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 Condensed Consolidated Interim 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 and debt.

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes (Note 9). 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 March 31, 2018.

The timing and extent of forecast capital and operating expenditures is based on the Company's 2018 budget and on management's estimate of expenditures expected to be incurred beyond 2018. 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 March 31, 2018, the availability of additional financing, and the timing and extent of capital and operating expenditures.

**2. Basis of preparation (continued)**

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 was in violation of the Forbearance Agreement including the following financial related termination:

- Sunshine had 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 (the "FRA") and a Note Exchange Agreement (the "NEA") with the Forbearing Holders. They agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made 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;
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD $5.2 million was paid;
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD $8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which were paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay the bond principal in an amount equal up 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 September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of USD $0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of USD $1.8 million by October 30, 2017;
- Repayment of USD $5.0 million and USD $15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD $5.0 million within 45 days after signing the Amended FA; and the Company is to obtain financing of USD $5.0 million every quarter.

**2. Basis of preparation (continued)**

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD $1.8 million on October 30, 2017, USD $5.0 million on February 1, 2018 and USD $15.0 million on May 1, 2018.

As Sunshine did not meet the aforementioned covenants and payment requirements, the senior notes contractually become due. The outstanding balance is presented as a current liability as at March 31, 2018.

The Forbearing Holders have not requested early repayment of the senior notes as of the date when these financial statements were approved by the Board of Directors.

On March 1, 2017, the West Ells Phase I project, located in the Athabasca region of Alberta, commenced commercial production. This marked a key milestone for the Company, following which the Project is treated as a fully operational and commercialized project.

The Condensed Consolidated Interim 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 9) 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 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 Condensed Consolidated Interim Financial Statements reflect management's best estimates after giving consideration to likely outcomes. The Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements have been prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2017. The Condensed Consolidated Interim Financial Statements are in compliance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The Condensed Consolidated Interim Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 19). The Condensed Consolidated Interim Financial Statements are presented in Canadian Dollars ("$"), which is the functional currency of the Company.

The Company has consistently applied the accounting policies to all periods presented in these financial statements. Certain information and disclosures normally included in the audited annual consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS"), have been condensed or omitted, except for the adoption of IFRS 15 Revenue From Contracts With Customers, IFRS 9 Financial Instruments and IFRIC 22 Foreign Currency Transactions and Advance Consideration. Accordingly, these Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited annual Consolidated Financial Statements for the year ended December 31, 2017.

### *2.1 Statement of compliance (continued)*

*Going concern*

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date these Condensed Consolidated Interim Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgment.

### 3. Significant accounting policies

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 adopted IFRS 2 on January 1, 2018 and did not have a material impact on the Company's Condensed Consolidated Interim 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. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. The Company requires additional disclosures to disclose disaggregated revenue by product type and is presented in the Condensed Consolidated Interim Financial Statements in Note 14.

Revenue from the sale of crude oil is recognized based on the consideration specified in contracts with customers and when control of the product transfers to the customer and collection is reasonably assured. The crude oil revenue is based on floating prices specified in the contract and the revenue is recognized when it transfers control of the product to a customer. The sales or transaction price of the Company's crude oil to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalization adjustments. The revenue is collected on the 25$^{th}$ day of the month following production.

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. In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments" which details the new general hedge accounting model. 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 adopted IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 has three principal classification categories for financial assets being measured at amortized costs, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL").

Under IFRS 9, financial assets such as cash and cash equivalents and trade and other receivables are classified and measured at amortized cost; financial assets such as financial instrument commodity contracts and financial instrument contracts are classified and measured at FVOCI as the assets are held with the objective to both collect contractual cash flows and sell the financial instrument; and all other financial assets are classified and measured at FVTPL. Financial liabilities are classified and measured at amortized costs or FVTPL. The Company's trade payables, accrued liabilities, loans and senior notes are classified and measured at amortized costs. There were no adjustments to the carrying values of the Company's financial instruments with the change in classification to IFRS 9. The classification and measurement of financial instruments did not have an impact on the Company's retained earnings as at January 1, 2018.

On December 8, 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration which is a new interpretation and clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. The adoption of IFRS 22 did not have a material impact on the Company's Condensed Consolidated Interim Financial Statements.

**3. Significant accounting policies (continued)**

*Future accounting policy changes*

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 is currently evaluating the impact of the standard on the Company's financial statements.

**4. Cash**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Cash[1] | $ | 1,518 | $ | 3,671 |
| | $ | 1,518 | $ | 3,671 |

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%.

**5. Trade and other receivables**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Trade | $ | 1,995 | $ | 1,548 |
| Accruals and other receivables | | 3,634 | | 3,377 |
| Goods and services taxes receivable | | 72 | | 7 |
| | $ | 5,701 | $ | 4,932 |

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 period:

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| 0 - 30 days | $ | 344 | $ | 119 |
| 31 - 60 days | | 105 | | - |
| 61 - 90 days | | 80 | | 3 |
| >90 days | | 1,466 | | 1,426 |
| | $ | 1,995 | $ | 1,548 |

As at March 31, 2018, included in the Company's trade receivables was an aggregate carrying amount of $2.0 million (December 31, 2017 - $1.5 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances.

**6. Exploration and evaluation**

| | | |
|---|---|---|
| **Balance, December 31, 2016** | $ | 291,716 |
| Capital expenditures | | 1,562 |
| Non-cash expenditures[1] | | (51) |
| Impairment loss | | (25,000) |
| **Balance, December 31, 2017** | $ | 268,227 |
| Capital expenditures | | 233 |
| Non-cash expenditures[1] | | 3 |
| **Balance, March 31, 2018** | $ | 268,463 |

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

Exploration and evaluation ("E&E") assets are comprised of undeveloped land and oil sands evaluation projects pending the determination of technical feasibility and commercial viability. As at March 31, 2018, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the E&E Assets.

### 7. Property, plant and equipment

| | | Crude oil assets | | Corporate assets | | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance, December 31, 2016** | $ | 887,821 | $ | 4,637 | $ | 892,458 |
| Capital expenditures | | 6,984 | | 670 | | 7,654 |
| Non-cash expenditures[1] | | (33) | | - | | (33) |
| **Balance, December 31, 2017** | $ | 894,772 | $ | 5,307 | $ | 900,079 |
| Capital expenditures | | 1,144 | | 4 | | 1,148 |
| Non-cash expenditures[1] | | (52) | | - | | (52) |
| **Balance, March 31, 2018** | $ | 895,864 | $ | 5,311 | $ | 901,175 |

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

| | | Crude oil assets | | Corporate assets | | Total |
|---|---|---|---|---|---|---|
| **Accumulated depletion, depreciation and impairment** | | | | | | |
| **Balance, December 31, 2016** | $ | 205,000 | $ | 2,927 | $ | 207,927 |
| Depletion and depreciation expense | | 14,183 | | 553 | | 14,736 |
| Impairment loss | | 170,000 | | - | | 170,000 |
| **Balance, December 31, 2017** | $ | 389,183 | $ | 3,480 | $ | 392,663 |
| Depletion and depreciation expense | | 4,037 | | 134 | | 4,171 |
| Impairment loss | | - | | - | | - |
| **Balance, March 31, 2018** | $ | 393,220 | $ | 3,614 | $ | 396,834 |
| | | | | | | |
| Carrying value, December 31, 2017 | $ | 505,589 | $ | 1,827 | $ | 507,416 |
| **Carrying value, March 31, 2018** | **$** | **502,644** | **$** | **1,697** | **$** | **504,341** |

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at the time, the Company ceased capitalization of petroleum revenue, royalties, diluent, transportation, and operating expenses relating to West Ells Project I and has included these amounts in the statement of comprehensive income (loss) for the three months ended March 31, 2018.

The Company started recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three months ended March 31, 2017. Prior to March 1, 2017, the West Ells Phase I assets of $687.1 million were not being depleted. In determining the unit-of-production depletion charge on recoverable reserves, future development costs of $2,400 million (2017 - $2,702 million) were included in property, plant and equipment.

During the three months ended March 31, 2018, the Company capitalized directly attributable costs of $Nil for share-based compensation (three months ended March 31, 2017 - $0.02 million) and $Nil for general and administrative costs (three months ended March 31, 2017 - $0.4 million).

As at March 31, 2018, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the West Ells Cash Generating Unit (CGU).

### 8. Trade and accrued liabilities

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Trade | $ | 23,412 | $ | 23,506 |
| Accrued liabilities | | 111,003 | | 96,810 |
| | $ | 134,415 | $ | 120,316 |

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

**8. Trade and accrued liabilities (continued)**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Trade | | | | |
| 0 - 30 days | $ | 4,289 | $ | 2,163 |
| 31 - 60 days | | 1,208 | | 117 |
| 61 - 90 days | | 1,362 | | 222 |
| > 91 days | | 16,553 | | 21,004 |
| | | 23,412 | | 23,506 |
| Accrued liabilities | | 111,003 | | 96,810 |
| | $ | 134,415 | $ | 120,316 |

**9. Senior Notes**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Senior secured notes | $ | 256,132 | $ | 249,199 |
| Discount on notes | | (16,168) | | (16,168) |
| Financing transaction costs on notes | | (11,846) | | (11,846) |
| Amortization of financing transaction costs and discount | | 28,014 | | 28,014 |
| Balance, end of period | $ | 256,132 | $ | 249,199 |

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.

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 forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the “Forbearing Holders”) entered into a long-term 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 of $19.1 million due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD $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 Company 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 Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the “NEA”) with the Forebearing Holders. The Forebearing Holders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made 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;
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD $5.2 million was paid;
- Sunshine agreed to repurchase and the Forebearing Holders agreed to sell up to USD $8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million to be repaid on August 1, 2017 in cash;

**9. Senior Notes (continued)**

- 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 Forebearing Holders 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 September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of USD $0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of USD $1.8 million by October 30, 2017;
- Repayment of USD $5.0 million and USD $15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD $5.0 million within 45 days after signing the Amended FA;
- The Company is to obtain financing of USD $5.0 million every quarter.

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD $1.8 million on October 30, 2017, USD $5.0 million on February 1, 2018 and USD $15.0 million on May 1, 2018.

As Sunshine did not meet the aforementioned covenants and payment requirements, the senior notes contractually become due. The outstanding balance is presented as a current liability as at March 31, 2018.

The Forbearing Holders have not requested early repayment of the senior notes as of the date when these financial statements were approved by the Board of Directors.

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.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US$5.0 million to US$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of March 31, 2018, the Company had incurred unsecured third party debt for a total of US$2.7 million (CDN$3.5 million equivalent) which is considered Permitted Debt. As at March 31, 2018, the related party debt of US$4.3 million (CDN$5.4 million equivalent) and interest were paid in full.

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 March 31, 2018, the Company had incurred $14.0 million (USD $10.8 million equivalent using the period 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 $1USD = $1.2894 CAD.

**10. Provisions**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Decommissioning obligations (Note 10.1) | $ | 50,702 | $ | 50,481 |
| | $ | 50,702 | $ | 50,481 |
| Presented as: | | | | |
| Provisions (current) | $ | - | $ | - |
| Provisions (non-current) | $ | 50,702 | $ | 50,481 |

### *10.1 Decommissioning obligations*

As at March 31, 2018, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $77.0 million (December 31, 2017 - $78.6 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 from 1.79% to 2.22% per annum and inflated using an inflation rate of 2.0% per annum.

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 50,481 | $ | 49,488 |
| Effect of changes in discount rate | | (49) | | (102) |
| Unwinding of discount rate | | 270 | | 1,095 |
| Balance, end of period | $ | 50,702 | $ | 50,481 |

## 11. Income taxes

### *11.1 Deferred tax balances*

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three months ended March 31, 2018 and 2017. The components of the net deferred income tax asset are as follows:

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Deferred tax assets (liabilities) | | | | |
| Exploration and evaluation assets and property, plant and equipment | $ | (73,182) | $ | (109,512) |
| Decommissioning liabilities | | 13,690 | | 13,630 |
| Share issue costs | | 1,525 | | 1,705 |
| Non-capital losses | | 269,294 | | 258,818 |
| Total Debt | | (452) | | 2,945 |
| Deferred tax benefits not recognized | | (210,875) | | (167,586) |
| | $ | - | $ | - |

## 12. Share capital

The Company's authorized share capital is as follows:

- an unlimited number of Class "A" and Class "B" voting common shares without par value;
- 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**

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Common shares | $ | 1,287,760 | $ | 1,275,008 |

### *12.1 Common shares*

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Balance, beginning of year | 5,627,877,613 | 1,275,008 | 5,002,601,358 | 1,247,302 |
| Private placements – general mandate | 320,515,559 | 12,996 | 625,276,255 | 28,311 |
| Share issue costs, net of deferred tax ($Nil) | - | (244) | - | (605) |
| Balance, end of period | 5,948,393,172 | 1,287,760 | 5,627,877,613 | 1,275,008 |

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

***12.1 Common shares (continued)***

***General mandate***

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD $0.272 per share (approximately CAD $0.043 per common share), for gross proceeds of HKD $22.0 million (approximately CAD $3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $0.7 million (approximately CAD $0.1 million), was incurred in relation to the Closing.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD $0.244 per share (approximately CAD $0.039 per common share), for gross proceeds of HKD $30.0 million (approximately CAD $4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD $0.244 per share for gross proceeds of HKD $28.3 million (approximately CAD $4.6 million) of this subscription agreement. In addition, a placing commission of HKD $0.9 million (approximately CAD $0.14 million), was incurred in relation to the Closing. The subscription agreement expired on February 13, 2018 and hence the time to close the remaining 6,147,500 class "A" common shares lapsed.

On February 28, 2018 the Company entered into a subscription agreement for a total of 102,436,500 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $25.1 million (approximately CAD $4.1 million). A payment of CAD $455,005 cash is to be made. On March 14, 2018 the Company completed the closing of this subscription agreement and a payment of $227,502 was made with the remaining balance due within 45 days after signing the agreement. This subscription agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018 the Company entered into a subscription agreement for a total of 20,393,059 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $5.0 million (approximately CAD $0.8 million). On March 14, 2018 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with independent third parties.

**13. Share-based compensation**

***13.1 Movements in stock options***

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

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Balance, beginning of period | 195,435,525 | 0.09 | 258,740,469 | 0.13 |
| Granted | - | - | 14,069,058 | 0.05 |
| Forfeited | (1,916,179) | 0.06 | (62,604,342) | 0.10 |
| Expired | - | - | (14,769,660) | 0.35 |
| Balance, end of period | 193,519,346 | 0.09 | 195,435,525 | 0.09 |
| Exercisable, end of period | 130,675,485 | 0.10 | 131,483,485 | 0.10 |

As at March 31, 2018, stock options outstanding had a weighted average remaining contractual life of 3.4 years (December 31, 2017 – 3.6 years). The Company granted Nil stock options during the three months ended March 31, 2018.

***13.2 Share-based compensation***

Share-based compensation has been recorded in the Condensed Consolidated Interim Financial Statements for the periods presented as follows:

| | March 31, 2018 | | | March 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Expensed | Capitalized | Total | Expensed | Capitalized | Total |
| Stock options | $ 368 | $ - | $ 368 | $ 979 | $ 17 | $ 996 |

### 14. Revenue

*Revenues by classification*

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Petroleum sales | $ | 11,258 | $ | 3,005 |
| | | 11,258 | | 3,005 |
| Other revenue | | 1 | | 5 |
| Balance, end of period | $ | 11,259 | $ | 3,010 |

### 14.1 Petroleum revenue, net of royalties

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Petroleum sales | $ | 11,258 | $ | 3,005 |
| Royalties | | (114) | | (20) |
| Balance, end of period | $ | 11,144 | $ | 2,985 |

1. Petroleum revenue, net of royalties for three month ended March 31, 2017 only includes one month from March 1, 2017 to March 31, 2017.

The royalty rate at West Ells is based on price sensitive royalty rates set by the Government of Alberta. The applicable royalty rates change dependent upon whether a project is pre-payout or post-payout, with payout being defined as the point in time when a project has generated enough net revenues to recover its cumulative costs. The royalty rate applicable to pre-payout oil sands operations starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above $55 per barrel, to a maximum of 9% when the WTI crude oil price is $120 per barrel or higher. All of the Company's projects are currently pre-payout.

The average royalty rate for West Ells was 1% for three months ended March 31, 2018 and March 31, 2017, respectively as noted above.

*Petroleum sales by Product*

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Crude oil sales | $ | 11,258 | $ | 3,005 |
| Balance, end of period | $ | 11,258 | $ | 3,005 |

The Company has no natural gas or natural gas liquid sales. The Company's petroleum sales is determined pursuant to the terms of the marketing agreements and spot sale agreements. The transaction price for crude oil is based on the commodity price in the month of production and adjusted for premiums, quality adjustments and equalization adjustments. Commodity prices are based on market indices that are determined on a daily or monthly basis. Petroleum sales are received one month after the crude oil is produced and shipped and typically collected on the 25$^{th}$ day of the month following production.

### 14.2. Other income

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Interest income | $ | 1 | $ | 5 |
| Balance, end of period | $ | 1 | $ | 5 |

### 15. General and administrative costs

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Salaries, consultants and benefits | $ | 1,617 | $ | 2,386 |
| Rent | | 553 | | 464 |
| Legal and audit | | 130 | | 564 |
| Other | | 713 | | 902 |
| Balance, end of period | $ | 3,013 | $ | 4,316 |

Effective March 1, 2017, the Company ceased the capitalization of portions of the general and administrative costs. For the three months ended March 31, 2018, the Company did not capitalize any general and administrative costs. For the three months ended March 31, 2017, the Company capitalized a portion of the general and administrative cost for the first two months of the year.

### 16. Finance costs

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Interest expense on senior secured notes | $ | 8,943 | $ | 8,960 |
| Interest expense on other loans | | 101 | | - |
| Redemption/yield maintenance premium | | 4,647 | | 4,722 |
| Financing related costs | | - | | 505 |
| Other interest expense/(recovery) | | 1,387 | | 6 |
| Unwinding of discounts on provisions | | 270 | | 274 |
| Balance, end of period | $ | 15,348 | $ | 14,467 |

### 17. Loss per share

The weighted average number for basic Class "A" common shares for the periods 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 periods presented.

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Basic and diluted – Class "A" common shares | | 5,771,889,541 | | 5,067,173,025 |
| Loss per share | $ | (0.01) | $ | (0.00) |

### 18. Financial instruments

#### *18.1 Capital risk management*

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

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

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

| | | March 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Working capital deficiency | $ | 385,244 | $ | 368,593 |
| Shareholders' equity | | 336,858 | | 356,569 |
| | $ | 722,102 | $ | 725,162 |

1. Senior secured notes in the amount of $256.1 million, plus accrued and unpaid amounts are considered current as at March 31, 2018 and have been included in the working capital deficit based on the Sep. 27, 2017 conditions to extend the maturity date to August 1, 2018.

The working capital deficiency of $385.2 million at March 31, 2018, includes the $256.1 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the three months ended March 31, 2018.

### *18.2 Categories of financial instruments*

The Company's financial assets and liabilities comprise of cash, prepaid expenses, deposits, trade and other receivables, trade and accrued liabilities and loans and senior notes (debt). The carrying value or fair value of the Company's financial instruments carried on the Condensed Consolidated Interim Statements of Financial Position are classified in the following categories:

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets at amortized cost** | | | | |
| Cash, prepaid expenses, deposits and trade and other receivables | $ 8,835 | $ 8,835 | $ 9,713 | $ 9,713 |
| | $ 8,835 | $ 8,835 | $ 9,713 | $ 9,713 |
| **Financial liabilities at amortized cost** | | | | |
| Trade and accrued liabilities | 134,415 | 134,415 | 120,316 | 120,316 |
| Debt | 259,664 | 259,664 | 257,990 | 257,990 |
| | $ 394,079 | $ 394,079 | $ 378,306 | $ 378,306 |

### *18.3 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, HK dollars and/or Chinese renminbi. 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 three months ended March 31, 2018.

If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2018 would have been impacted by Nil and the carrying value of the debt at March 31, 2018 would have been impacted by $2.6 million. At March 31, 2018, the Company held approximately USD $0.01 million or $0.013 million of cash, using the March 31, 2018 exchange rate of 1.2894, as cash and cash equivalents in the Company's US bank accounts.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2018 would have been impacted by approximately Nil and the carrying value of the debt at March 31, 2018 would have been impacted by $0.03 million. At March 31, 2018, the Company held, after recent equity closings, approximately HKD $0.4 million or $0.07 million using the March 31, 2018 exchange rate of 6.0865, as cash in the Company's HKD bank accounts.

For Chinese renminbi amounts, exchange rates to convert from Chinese renminbi to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2018 would have been impacted by approximately Nil. At March 31, 2018, the Company held approximately CNY $1.9 million or $0.4 million using the March 31, 2018 exchange rate of 4.8780, as cash in the Company's CNY bank accounts.

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

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| Unrealized foreign exchange loss /(gain) on translation of: | | |
| U.S. denominated senior secured notes | $ 6,933 | $ (2,101) |
| H.K. denominated loan | 80 | - |
| Foreign currency denominated cash balances | (25) | 785 |
| Foreign currency denominated accounts payable balances | 84 | (622) |
| | 7,072 | (1,938) |
| Realized foreign exchange loss | (90) | 10 |
| **Total foreign exchange loss/(gain)** | $ 6,982 | $ (1,928) |

### *18.4 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 March 31, 2018, the Company had negative working capital of $385.2 million and an accumulated deficit of $1,021.8 million. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access additional financing.

The timing of cash outflows relating to financial liabilities as at March 31, 2018, are as follows:

| | | Total | | Less than 1 year | | 1-2 years |
|---|---|---|---|---|---|---|
| Trade and accrued liabilities | $ | 134,415 | $ | 134,415 | $ | - |
| Debt[1] | | 259,664 | | 259,664 | | - |
| | $ | 394,079 | $ | 394,079 | $ | - |

1. Principal amount of Notes and loans based on the year end exchange rate of $1 US = 1.2894 CAD and $1HKD = $0.1643 CAD. Debt is due on demand.

## 19. Related party transactions

### *19.1 Trading transactions*

For the three months ended March 31, 2018, a consulting company, to which a director of Sunshine is related, charged the Company $0.14 million (March 31, 2017 – $0.14 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,660,897,000 common shares of the Company which represents approximately 27.9% of the Company's outstanding common shares.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan, the total loans amount were HKD $33.3 million (approximately CAD $5.4 million). As at March 31, 2018, all the loans and interests were paid in full.

### *19.2 Compensation of key management personnel and directors*

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

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Directors' fees[1] | $ | 168 | $ | 171 |
| Salaries and allowances | | 543 | | 1,409 |
| Share-based compensation | | 336 | | 919 |
| | $ | 1,047 | $ | 2,499 |

1. For the period ended March 31, 2018, this number reflects accrued fees of $0.2 million (2017 - $0.1 million). Refer to the appendix A2 for additional director fees disclosure.

## 20. Operating lease arrangements

### *Payments recognised as an expense*

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| Minimum lease payments | $ | 547 | $ | 615 |

## 21. Commitments and contingencies

As at March 31, 2018, the Company's commitments are as follows:

| | | Total | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter |
|---|---|---|---|---|---|---|---|---|
| Repayment of debt[1] | $ | 256,132 | 256,132 | - | - | - | - | - |
| Interest payments on debt[2] | | 10,587 | 10,587 | - | - | - | - | - |
| Redemption premium[3] | | 8,232 | 8,232 | - | - | - | - | - |
| Loans[4] | | 3,532 | 3,532 | - | - | - | - | - |
| Equipment and contracts | | 1,631 | 628 | 247 | 247 | 247 | 132 | 130 |
| Lease rentals[5] | | 7,655 | 1,201 | 1,395 | 1,395 | 1,395 | 1,253 | 1,016 |
| Office leases | | 3,641 | 2,264 | 1,084 | 293 | - | - | - |
| | $ | 291,410 | 282,576 | 2,726 | 1,935 | 1,642 | 1,385 | 1,146 |

1. Principal amount of Notes based on the period end exchange rate of $1US=$1.2894 CAD and a maturity date of August 1, 2018.
2. Based on 10% on principal amount and 2.5% on the principal amount of the notes held by the Forbearing Holders per annum and a maturity date of August 1, 2018 less the interest accrued to March 31, 2018, at the period end exchange rate of $1USD = $1.2894 CAD.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2018 less the 4.084% premium accrued to March 31, 2018. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2018. Using the period end exchange rate of $1USD = $1.2894 CAD this premium amounts to $18,692. At March 31, 2018, the Company had the option to redeem the Notes at 4.084% of the aggregate principal amount of the Notes outstanding which amounts to $10,460 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2018 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. Principal of loans and its interest (3% and 6% on principal amount of the debt) based on the period exchange rate of $1 HKD = $0.1643 CAD.
5. 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 Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2018 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.

**22. Supplemental cash flow disclosures**

***Supplemental cash flow disclosures***

| | | March 31, 2018 | | March 31, 2017 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| Trade and other receivables | $ | (769) | $ | (1,970) |
| Prepaid expenses and deposits | | (506) | | 2,795 |
| Trade and other payables | | (1,033) | | 597 |
| | $ | (2,308) | $ | 1,422 |
| **Changes in non-cash working capital relating to:** | | | | |
| *Operating activities* | | | | |
| Trade and other receivables | $ | (769) | $ | (1,970) |
| Prepaid expenses and deposits | | (506) | | 2,795 |
| Trade and other payables | | (835) | | 2,498 |
| | $ | (2,110) | $ | 3,323 |
| *Investing activities* | | | | |
| Property, plant and equipment | | (198) | | (1,901) |
| | $ | (2,308) | $ | 1,422 |

The following table reconciles liabilities to cash flows arising from financing activities:

| | | 2018 |
|---|---|---|
| **Balance, December 31, 2017** | $ | 257,990 |
| Changes in cash items - | | |
| Payment of shareholder loans | | (5,339) |
| Changes in non-cash items - | | |
| Unrealized loss / (gain) on senior notes foreign exchange | | 6,933 |
| Unrealized loss / (gain) on other loans foreign exchange | | 80 |
| **Balance, March 31, 2018** | $ | 259,664 |

**23. Subsequent events**

On February 28, 2018 and March 2, 2018, the Company entered into two subscription agreements for a total of 122,829,559 class “A” common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $30.1 million (approximately CAD $4.9 million). A payment of CAD $455,005 cash was to be made. On March 14, 2018, the Company completed the closing of these subscription agreements and a payment of $227,502 was made with the remaining balance due within 45 days after signing the agreement. On April 10, 2018, the remaining payment of $227,502 was paid and the settlement of indebtedness with the independent third parties is paid in full. These subscription agreements were entered into for settlement of indebtedness with independent third parties.

On May 6, 2018, the Company accepted the resignation of Mr. Qiping Men as the Chief Executive Officer (“CEO”) and Executive Director, effective immediately. As Executive Chairman, Mr. Kwok Ping Sun has assumed direct responsibilities for all CEO tasks and functions.

**24. Comparative figures**

For the three months ended March 31, 2017 statement of cash flows, the payment for finance costs included amounts which were accrued but not paid in 2017 and movement in non-cash working capital items were reclassified between operating, investing and financing activities. These adjustments do not impact the cash balance as at March 31, 2017. Such adjustments had no impact on the previously reported Consolidated Statement of Financial Position and Consolidated Statement of Operations and Comprehensive Loss. The changes to the Statement of Cash Flows for the period ended March 31, 2017 are summarized in the following table:

| | March 31, 2017 as Previously Reported | Adjustments | March 31, 2017 Restated |
|---|---|---|---|
| *Cash flows provided by / (used in) operating activities* | | | |
| Net loss | $ (21,169) | - | $ (21,169) |
| Finance Costs | 14,467 | - | 14,467 |
| Unrealized foreign exchange (gains)/losses | (1,938) | - | (1,938) |
| Interest income | (5) | - | (5) |
| Depletion and depreciation | 1,866 | - | 1,866 |
| Share based compensation | 979 | - | 979 |
| Movement in non-cash working capital | 14,260 | (10,937) | 3,323 |
| **Net cash provided by / (used in) operating activities** | 8,460 | (10,937) | (2,477) |
| *Cash flows used in investing activities* | | | |
| Interest received | 5 | - | 5 |
| Payments for exploration and evaluation assets | (227) | - | (227) |
| Payments for property, plant and equipment | (4,452) | - | (4,452) |
| Movement in non-cash working capital | (10,481) | 8,580 | (1,901) |
| **Net cash used in investing activities** | (15,155) | 8,580 | (6,575) |
| *Cash flows provided in financing activities* | | | |
| Proceeds from issue of common shares | 16,741 | - | 16,741 |
| Interest and premiums paid | - | (7,220) | (7,220) |
| Payment for share issue costs | (443) | - | (443) |
| Payment for finance costs | (14,193) | 14,193 | - |
| Movement in non-cash working capital | 4,616 | (4,616) | - |
| **Net cash provided by financing activities** | 6,721 | 2,357 | 9,078 |
| Effect of exchange rate changes on cash held in foreign currency | (785) | - | (785) |
| Net increase / (decrease) in cash | (759) | - | (759) |
| Cash, beginning of period | 13,635 | - | 13,635 |
| Cash, end of period | **$ 12,876** | - | **$ 12,876** |

**25. Approval of Condensed Consolidated Interim Financial Statements**

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors and authorized for issue on May 10, 2018.

**Appendix to the Condensed Consolidated Interim Financial Statements (Unaudited)**

**Additional Stock Exchange Information**

Additional information required by the SEHK and not shown elsewhere in these Condensed Consolidated Interim 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, Boxian and Sunshine Shanghai.

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| *Non-current assets* | | |
| Property, plant and equipment | $ 503,713 | $ 506,741 |
| Exploration and evaluation assets | 268,463 | 268,227 |
| Amounts due from subsidiary | 7,789 | 8,967 |
| | 779,965 | 783,935 |
| *Current assets* | | |
| Trade and other receivables | 5,701 | 4,932 |
| Prepaid expenses and deposits | 1,331 | 813 |
| Cash | 1,092 | 1,404 |
| | 8,124 | 7,149 |
| *Current liabilities* | | |
| Trade and other payables | 134,414 | 120,315 |
| Amount due to subsidiary | 2,604 | 2,544 |
| Loans | 3,532 | 3,452 |
| Shareholder loans | - | 5,339 |
| Senior notes | 256,132 | 249,199 |
| | 396,682 | 380,849 |
| Net current assets | (388,558) | (373,700) |
| Total assets less current liabilities | 391,407 | 410,235 |
| *Non-current liabilities* | | |
| Provisions | 50,702 | 50,481 |
| | 50,702 | 50,481 |
| Net assets | $ 340,705 | $ 359,754 |
| *Capital and reserves* | | |
| Share capital | $ 1,287,760 | $ 1,275,008 |
| Reserve for share-based compensation | 70,890 | 70,522 |
| Deficit | (1,017,945) | (985,776) |
| | $ 340,705 | $ 359,754 |

**Appendix to the Condensed Consolidated Interim Financial Statements (Unaudited)**

**A2. Directors' emoluments and other staff costs**

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

| | March 31, 2018 | March 31, 2017 |
|---|---|---|
| *Directors' emoluments* | | |
| Directors' fees | $ 168 | $ 171 |
| Salaries and allowances | 543 | 1,231 |
| Share-based compensation | 336 | 900 |
| | 1,047 | 2,302 |
| *Other staff costs* | | |
| Salaries and other benefits | 819 | 1,101 |
| Contribution to retirement benefit scheme | 87 | 115 |
| Share-based compensation | 32 | 96 |
| | 938 | 1,312 |
| Total staff costs, including directors' emoluments | 1,985 | 3,614 |
| Less: staff costs capitalized to qualifying assets | - | 249 |
| | $ 1,985 | $ 3,365 |