阳光油砂
SUNSHINE OILSANDS LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2017 and 2016

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.

Condensed Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	Notes	March 31, 2017	December 31, 2016
Assets			
Current assets			
Cash	4	$ 12,876	$ 13,635
Trade and other receivables	5	4,624	2,654
Prepaid expenses and deposits	6	2,259	5,054
		19,759	21,343
Non-current assets			
Exploration and evaluation	7	292,237	291,716
Property, plant and equipment	8	688,488	684,531
		980,725	976,247
		$ 1,000,484	$ 997,590
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and accrued liabilities	9	$ 78,474	$ 71,526
Provisions	11	581	581
Senior Notes	10	266,440	268,540
		345,495	340,647
Non-current liabilities			
Provisions	11	51,409	49,488
		396,904	390,135
Shareholders' Equity			
Share capital	13	1,263,600	1,247,302
Reserve for share-based compensation		68,258	67,262
Deficit		(728,278)	(707,109)
		603,580	607,455
		$ 1,000,484	$ 997,590

Going concern (Note 2)
Commitments and contingencies (Note 22)
Subsequent events (Note 24)

Approved by the Board

"Gerry Stevenson"
Director

"Qiping Men"
Executive Director

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

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

For the three months ended March 31,	Notes		2017		2016
Revenues and Other Income					
Petroleum sales, net of royalties	15	$	2,985	$	-
Other income	16		5		18
			2,990		18
Expenses					
Diluent	8		1,090		-
Transportation	8		1,153		-
Operating	8		2,216		-
General and administrative	7, 8		4,316		3,827
Finance costs	17		14,467		14,598
Stock based compensation	14.2		979		161
Foreign exchange (gains)/losses	19.3		(1,928)		(16,088)
Contract Provision Expense	11.2		-		142
Depletion, depreciation and impairment	7, 8		1,866		151
		$	24,159	$	2,791
Loss before income taxes			21,169		2,773
Income taxes	12		-		-
Net loss and comprehensive loss		$	21,169	$	2,773
Basic and diluted loss per share	18	$	0.004	$	0.001

See accompanying notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

	Notes		Reserve for share based compensation	Share capital	Deficit	Total
Balance, December 31, 2016		$	67,262	1,247,302	(707,109)	607,455
Net loss and comprehensive loss for the year			-	-	(21,169)	(21,169)
Issue of common shares	13.1		-	16,741	-	16,741
Recognition of share-based compensation	14.2		996	-	-	996
Share issue costs, net of deferred tax ($Nil)	13.1		-	(443)	-	(443)
Balance, March 31, 2017		$	68,258	1,263,600	(728,278)	(603,580)
Balance, December 31, 2015		$	62,910	$ 1,174,987	$ (633,799)	$ 604,098
Net loss and comprehensive loss for the year			-	-	(2,773)	(2,773)
Recognition of share-based compensation	14.2		252	-	-	252
Balance, March 31, 2016		$	63,162	$ 1,174,987	$ (636,572)	$ 601,577

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Notes	For the three month ended March 31, 2017	2016
Cash flows used in operating activities			
Net loss		$ (21,169)	$ (2,773)
Finance costs	17	14,467	14,598
Unrealized foreign exchange (gains)/losses	19.3	(1,938)	(16,651)
Contract provision expense	11.2	-	75
Interest income	16	(5)	(13)
Gain on sale of assets	8, 16	-	(3)
Fair value adjustment on share purchase warrants	16	-	(2)
Depreciation and impairment	7, 8	1,866	151
Share-based compensation	14.2	979	161
Movement in non-cash working capital	23	14,260	(1,599)
Net cash provided by(used in) operating activities		8,460	(6,056)
Cash flows used in investing activities			
Interest received		5	13
Proceeds from sale of asset		-	2
Payments for exploration and evaluation assets	7	(227)	(307)
Payments for property, plant and equipment	8	(4,452)	(9,515)
Movement in restricted cash	4	-	13,825
Movement in non-cash working capital	23	(10,481)	8,653
Net cash provided by (used in) investing activities		(15,155)	12,671
Cash flows provided in financing activities			
Proceeds from issue of common shares	13.1	16,741	-
Payment for share issue costs	13.1	(443)	-
Payment for finance costs	17	(14,193)	(10,673)
Proceeds from shareholder loan		-	5,791
Movement in non-cash working capital	23	4,616	(6,755)
Net cash provided by (used in) financing activities		6,721	(11,637)
Effect of exchange rate changes on cash held in foreign currency	19.3	(785)	37
Net increase / (decrease) in cash		(759)	(4,985)
Cash, beginning of year		13,635	6,545
Cash, end of period		$ 12,876	$ 1,560

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2017 and 2016
(Expressed in thousands of Canadian dollars, unless otherwise indicated)
(Unaudited)

1. Company information

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

On May 4, 2012, Sunshine Oilsands (Hong Kong) Limited ("Sunshine Hong Kong") was incorporated in Hong Kong and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Sunshine Hong Kong is Unit 8504A, 85/F, International Commerce Centre 1 Austin Road West, Kowloon.

On July 14, 2015, Boxian Investments Limited ("Boxian") was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Boxian is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As of March 31, 2017, 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 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.

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 10). Management continually monitors the Company's financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following March 31, 2017.

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

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at March 31, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

2. Basis of preparation (Continued)

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 Corporation, 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 10) the Company would be unlikely to be able to continue the development of the West Ells project and the Company would be required to consider divestiture of the West Ells project and other exploration assets. Such curtailment of activity would likely materially and negatively impact the Company's assessment of the carrying values of assets and liabilities associated with the West Ells project.

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

- Payment of USD $2.8 million representing 20% of the the Yield Maintenance Premium (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 USD $5.2 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 21, 2017, which has been paid on March 21, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal 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. As of May 5, 2017, USD $1.5 million has been paid.

On March 21, 2017, Sunshine agreed to repurchase and the Bondholders have agreed to sell up to USD $8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

2.1 Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). 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.

3. Significant accounting policies

For the three months ended March 31, 2017 there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for year ended December 31, 2016.

4. Cash and cash equivalents

	March 31, 2017	December 31, 2016
Current asset		
Cash[1]	$ 12,876	$ 13,635
	$ 12,876	$ 13,635

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, 2017	December 31, 2016
Petroleum Receivable	$ 2,407	$ -
Trade Receivable	2,084	1,434
Other	133	1,220
	$ 4,624	$ 2,654

6. Prepaid expenses and deposits

	March 31, 2017	December 31, 2016
Prepaid expenses	$ 1,483	$ 1,067
Deposits	776	3,987
	$ 2,259	$ 5,054

As at March 31, 2017, the deposits include Nil held with the Alberta Energy Regulator for the Licensee Liability Rating Program (on February 22, 2017, $3.2 million has been refunded in total). The remaining deposits include ordinary business deposits of $0.8 million.

7. Exploration and evaluation

Balance, December 31, 2015	$ 290,945
Capital expenditures	1,344
Non-cash expenditures[1]	(573)
Balance, December 31, 2016	$ 291,716
Capital expenditures	227
Non-cash expenditures[1]	294
Balance, March 31, 2017	$ 292,237

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

Exploration and evaluation assets are comprised of undeveloped land and oil sands evaluation projects pending the determination of technical feasibility and commercial viability. As at March 31, 2017, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at previous year end) of the E&E Assets.

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

	March 31, 2017	December 31, 2016
Intangibles	$ 271,286	$ 270,957
Tangibles	19,584	19,584
Land and lease costs	91,367	91,175
	$ 382,237	$ 381,716

8. Property, plant and equipment

	Crude oil assets	Corporate assets	Total
Cost			
Balance, December 31, 2015	$ 853,848	$ 4,462	$ 858,310
Capital expenditures	35,970	175	36,145
Non-cash expenditures[1]	(1,997)	-	(1,997)
Balance, December 31, 2016	$ 887,821	$ 4,637	$ 892,458
Capital expenditures	4,166	286	4,452
Non-cash expenditures[1]	1,371	-	1,371
Balance, March 31, 2017	$ 893,358	4,923	898,281

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

	Crude oil assets	Corporate assets	Total
Accumulated depreciation, depletionand impairment			
Balance, December 31, 2015	$ 205,000	$ 2,380	$ 207,380
Depletion and Depreciation expense	-	547	547
Balance, December 31, 2016	$ 205,000	$ 2,927	$ 207,927
Depletion and Depreciation expense	1,743	123	1,866
Balance, March 31, 2017	$ 206,743	$ 3,050	$ 209,793
Carrying value, December 31, 2016	$ 682,821	$ 1,710	$ 684,531
Carrying value, March 31, 2017	**$ 686,615**	**$ 1,873**	**$ 688,488**

The Company commenced commercial production at West Ells Project I on March 1, 2017. At the time it 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, 2017.

The Company also commenced 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 $2,702 million were included in property, plant and equipment.

During the three months ended March 31, 2017, the Company capitalized directly attributable costs of $0.02 million for share-based compensation (three months ended March 31, 2016 - $0.1 million) and $0.4 million for general and administrative costs (three months ended March 31,2016 - $1.0 million).

As at March 31, 2017, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at the previous year end) of the West Ells Cash Generating Unit (CGU).

9. Trade and accrued liabilities

	March 31, 2017	December 31, 2016
Trade	$ 27,775	$ 27,341
Accrued liabilities	50,699	44,185
	$ 78,474	$ 71,526

10. Senior Notes

	March 31, 2017	December 31, 2016
Senior secured notes (USD $200,000,000)	$ 266,440	$ 268,540
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 year	$ 266,440	$ 268,540

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

10. Senior Notes (continued)

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD $50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating with the noteholders.

On September 9, 2016, the Company 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 include: (a) payment on October 17, 2016 of the yield maintenance premium payment of $19.1 million (Note 20) 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 Corporation for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On February 1, 2017, the payment of accrued interest and repurchase of USD $22.5 million were not met.

On March 21, 2017, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement Agreement (the "FRA"). The principal payment terms of the FRA include: (i) Payment of 20% of the YMP originally due on August 1, 2016 by cash; (ii) 80% of the YMP will be repaid on August 1, 2017 as the bond matures; (iii) Payment of 20% accrued interest and forbearance fees due on February 1, 2017 by cash and the remaining amount to be repaid on August 1, 2017 as the bond matures; and (iv) Regarding the USD $22.5 million of principal repayment which fell due on February 1, 2017, both parties agreed to defer the repayment as follows: USD $5.0 million and USD $10.0 million are to be repaid by the end of April 2017 and June 2017 respectively. The remaining amount shall be repaid on or before the maturity date of the bond, i.e. August 1, 2017. In addition, the Company and certain noteholders entered into a Note Exchange Agreement (the "NEA") whereby the Company agreed to repay bond principal of up to USD $8.9 million by issuance of shares.

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At March 31, 2017, the Company had incurred $10.7 million (USD $8.1 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 = $1.3322CAD.

11. Provisions

		March 31, 2017		December 31, 2016
Decommissioning obligations (Note 11.1)	$	51,409	$	49,488
Contract provision (Note 11.2)		581		581
	$	51,990	$	50,069
Presented as:				
Provisions (current)	$	581	$	581
Provisions (non-current)	$	51,409	$	49,488

11.1 Decommissioning obligations

As at March 31, 2017, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $78.6 million (December 31, 2016 - $80.1 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate between 0.48% to 2.04% per annum and inflated using an inflation rate of 2.0% per annum.

		March 31, 2017		December 31, 2016
Balance, beginning of year	$	49,488	$	51,656
Effect of changes in discount rate		1,647		(3,128)
Unwinding of discount rate		274		960
	$	51,409	$	49,488
Current portion		-		-
Balance, end of year	$	51,409	$	49,488

11.2 Contract provision

As at March 31, 2017, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $0.6 million (December 31, 2016 - $0.6 million). The $0.6 million represents the maximum obligation required if the drilling rig was not utilized over the remaining term of the contract, which ended in the fourth quarter of 2016. At March 31, 2017, this obligation was broken into a $5.6 million payable and a $0.6 million provision (December 31, 2016 - $5.6 million payable and $0.6 million provision).

12. Income taxes

12.1 Deferred tax balances

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

		March 31, 2017		December 31, 2016
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(140,299)	$	(119,980)
Decommissioning liabilities		13,880		13,362
Share issue costs		1,629		1,754
Non-capital losses		207,348		193,894
Deferred tax benefits not recognized		(82,558)		(89,030)
	$	-	$	-

12.2 Tax pools

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

		March 31, 2017		December 31, 2016
Canadian development expense	$	25,960	$	36,163
Canadian exploration expense		230,935		230,926
Undepreciated capital cost		204,414		264,788
Non-capital losses		767,955		718,126
Share issue costs		6,032		6,497
	$	1,235,296	$	1,256,500

The Company's non-capital losses of $767,995 (December 31, 2016 - $718,126), expire between 2028 and 2035.

13. Share capital

The Company's authorized share capital is as follows:

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

Issued Capital

		March 31, 2017		December 31, 2016
Common shares	$	1,263,600	$	1,247,302

13.1 Common shares

	March 31, 2017		December 31, 2016	
	Number of shares	$	Number of shares	$
Balance, beginning of year	5,002,601,358	1,247,302	4,230,264,104	1,174,987
Private placements – specific mandate	-		413,520,000	52,350
Private placements – general mandate	347,350,000	16,741	358,575,588	20,345
Issue of shares under share option plan (Note 14.5)	-		241,666	15
Share option reserve transferred on exercise of stock options	-		-	10
Share issue costs, net of deferred tax ($Nil)	-	(443)	-	(405)
Balance, end of year	5,349,951,358	1,263,600	5,002,601,358	1,247,302

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

General mandate

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

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class "A" common shares at a price of HKD $0.283 per share (approximately CAD $0.050 per common share), for gross proceeds of HKD $70 million (approximately CAD $12.1 million). On March 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $525,000 (approximately CAD $0.09 million), was incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited ("Zhengwei") under which Zhengwei agreed to subscribe for a total of up to 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HKD $0.29 per Common Share or approximately CAD $0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD $43.5 million (approximately CAD $7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD $0.29 (approximately CAD $0.050 per Common Share). The Company received total gross proceeds of HKD $11.6 million (approximately CAD $2.0 million). The subscription agreement expired on the date of this announcement and hence the time to close the remaining 110,000,000 Common Shares has lapsed.

13.2 Share purchase warrants

	March 31, 2017		December 31, 2016	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of period	-	-	132,910,941	0.34
Expired	-	-	(132,910,941)	0.34
Balance, end of period	-	-	-	-
Exercisable, end of period	-	-	-	-

During the year ended December 31, 2016, all outstanding share purchase warrants expired.

14. Share-based compensation

14.1 Movements in stock options

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

	Period ended March 31, 2017		Year ended December 31, 2016	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, beginning of period	258,740,469	0.13	95,554,786	0.31
Granted	-	-	215,539,909	0.09
Exercised	-	-	(241,666)	0.06
Forfeited	(9,116,177)	0.11	(45,542,821)	0.29
Expired	-	-	(6,569,739)	0.44
Balance, end of period	249,624,292	0.13	258,740,469	0.13
Exercisable, end of period	119,122,147	0.17	122,243,920	0.17

As at March 31, 2017, stock options outstanding had a weighted average remaining contractual life of 4.0 years (December 31, 2016 – 4.4 years).

In 2016, 42,111,000 of the stock options were granted conditionally to Mr. Kwok Ping Sun subject to shareholder approval at the next general meeting of the shareholders.

14.2 Share-based compensation

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

	March 31, 2017			March 31, 2016		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 979	$ 17	$ 996	$ 161	$ 91	$ 252

15. Petroleum Revenue

	March 31, 2017	March 31, 2016
Petroleum Sales	$ 3,005	$ -
Royalties	(20)	-
Balance, end of period	$ 2,985	$ -

16. Other Income

		March 31, 2017		March 31, 2016
Interest income	$	5	$	13
Gain on sale of assets		-		2
Fair value adjustment on share purchase warrants		-		3
Total	$	5	$	18

17. Finance costs

		March 31, 2017		March 31, 2016
Interest expense on senior secured notes	$	8,960	$	6,240
Interest expense on shareholder's loan		-		37
Amortization of financing transaction costs and discount		-		3,665
Redemption/yield maintenance premium		505		4,347
Financing related costs		4,722		46
Other interest expense/(recovery)		6		3
Unwinding of discounts on provisions		274		260
	$	14,467	$	14,598

18. 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.

For the three months ended March 31,	2017	2016
Basic and Diluted – Class "A" common shares	5,067,173,025	4,230,264,104

19. Financial instruments

19.1 Capital risk management

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

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

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

		March 31, 2017		December 31, 2016
Working capital deficiency	$	325,736	$	319,304
Shareholders' equity		603,580		607,455
	$	929,316	$	926,759

The Company's working capital deficiency of $325.7 million at March 31, 2017, includes the $266.4 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, 2017.

19.2 Categories of financial instruments

	March 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash, restricted cash and cash equivalents, prepaid expenses, deposits and trade and other receivables	$ 19,759	$ 19,759	$ 21,343	$ 21,343
Financial liabilities				
Trade and accrued liabilities	78,474	78,474	71,526	71,526
Senior Notes	266,440	266,440	268,540	268,540

19.3 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 and/or HK dollars. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the period ended March 31, 2017.

If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at March 31, 2017 would have been impacted by $0.1 million and the carrying value of the senior notes at March 31, 2017 would have been impacted by $2.7 million. At March 31, 2017 the Company held approximately USD $1.6 million or $2.2 million of cash, using the March 31, 2017 exchange rate of $1USD = $1.3322CAD, as cash, 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, 2017 would have been impacted by approximately $0.1 million. At March 31, 2017, the Company held, after recent equity closings, approximately HKD $39.1 million or $6.7 million using the March 31, 2017 exchange rate of $1CAD = $5.8337HKD, as cash in the Company's HKD bank account.

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

		March 31, 2017	March 31,2016
Unrealized foreign exchange loss /(gain) on translation of:			
US denominated senior secured notes	$	(2,101)	(16,302)
HK denominated shareholder loan		-	(373)
Foreign currency denominated cash balances		785	(37)
Foreign currency denominated accounts payable balances		(622)	61
		(1,938)	(16,651)
Realized foreign exchange loss		10	563
Total foreign exchange (gains)/ losses	$	(1,928)	(16,088)

19.4 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, 2017, the Company had negative working capital of $325.7 million and an accumulated deficit of $728.7 million. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access additional financing.

19.4 Liquidity risk management (continued)

The timing of cash outflows relating to financial liabilities as at March 31, 2017, are as follows:

		Total		Less than 1 year		1-2 years
Trade and accrued liabilities	$	78,474	$	78,474	$	-
Debt[1]		266,440		266,440		-
	$	344,914	$	344,914	$	-

1. Principal amount of Notes based on the period end exchange rate of $1USD = $1.3322CAD.

20. Related party transactions

20.1 Trading transactions

For the three months ended March 31, 2017, a consulting company, to which a director of Sunshine is related, charged the Company $0.1 million (the three months ended March 31, 2016 - Nil) for management and advisory services.

In 2016, the Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company and he has also loaned the Company funds on an unsecured basis.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan was considered Permitted Debt under the Company's Notes as long as it did not exceed USD $5.0 million. The Loan had an interest rate of 6.0% per annum, can be drawn up to HKD $38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

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

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements. As at December 31, 2016 and March 31, 2017, both the Loan and Second loan balances were Nil.

20.2 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, 2017		March 31, 2016
Directors' fees[1]	$	171	$	175
Salaries and allowances		1,409		1,138
Share-based compensation		919		79
	$	2,499	$	1,392

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

21. Operating lease arrangements

Payments recognised as an expense

		March 31, 2017		March 31, 2016
Minimum lease payments	$	615	$	536

22. Commitments and contingencies

As at March 31, 2017, the Company's commitments are as follows:

		Total	2017	2018	2019	2020	2021	Thereafter
Repayment of long-term debt[1]	$	266,440	266,440	-	-	-	-	-
Interest payments on long-term debt[2]		16,519	16,519	-	-	-	-	-
Redemption premium[3]		19,445	19,445	-	-	-	-	-
Drilling, other equipment and contracts		3,397	3,312	85	-	-	-	-
Lease rentals[4]		9,038	1,205	1,402	1,414	1,414	1,414	3,603
Office leases		5,374	2,149	2,580	645	-	-	-
	$	320,213	309,070	4,067	2,059	1,414	1,414	3,603

1. Principal amount of Notes based on the period end exchange rate of $1USD=1.3322CAD and a maturity date of August 1, 2017.
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, 2017, at the period end exchange rate of $1USD = $1.3322CAD.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2017. Using the period end exchange rate of $1USD = $1.3322CAD this premium amounts to $19,445. At March 31, 2017, the Company had the option to redeem the Notes at 4.084% of the aggregate principal amount of the Notes outstanding which amounts to $6,265 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2017 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the Condensed Consolidated Interim Financial Statements for the period ended March 31, 2017 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.

23. Supplemental cash flow disclosures

		March 31, 2017		March 31, 2016
Cash provided by (used in):				
Trade and other receivables	$	(1,970)	$	658
Prepaid expenses and deposits		2,795		1,178
Trade and other payables		7,570		(1,537)
	$	8,395	$	299
Changes in non-cash working capital relating to:				
Operating activities				
Trade and other receivables	$	(1,996)	$	116
Prepaid expenses and deposits		2,795		1,178
Trade and other payables		13,461		(2,893)
	$	14,260	$	(1,599)
Investing activities				
Property, plant and equipment		(10,481)		8,653
	$	(10,481)	$	8,653
Financing activities				
Share issue costs and finance costs	$	4,616	$	(6,755)
	$	8,395	$	299

24. Subsequent events

On April 5, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD $5,861,054.36. On April 13, 2017 the Company completed the closing a total of 147,874,000 shares to the Creditor at the issue price of HKD $0.241 per Common Shares (approximately CAD $0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The issued Common Shares in this transaction are subject to a four months holding period.

25. Approval of interim consolidated financial statements

The Condensed Interim Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on May 11, 2017.

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 Interim Consolidated Financial Statements is as follows:

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

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

		March 31, 2017		December 31, 2016
Non-current assets				
Property, plant and equipment	$	688,091	$	684,410
Exploration and evaluation assets		292,237		291,716
Amounts due from subsidiary		5,437		4,657
		985,765		980,783
Current assets				
Trade and other receivables		4,624		2,654
Prepaid expenses and deposits		2,259		4,956
Cash		12,237		13,066
		19,120		20,676
Current liabilities				
Trade and other payables		78,457		71,509
Provisions		581		581
Share purchase warrants		-		-
Amount due to subsidiary		2,717		2,611
Senior Notes		266,440		268,540
		348,195		343,241
Net current assets		(329,075)		(322,565)
Total assets less current liabilities		656,690		658,218
Non-current liabilities				
Provisions		51,409		49,488
		51,409		49,488
Net assets	$	605,281	$	608,730
Capital and reserves				
Share capital	$	1,263,600	$	1,247,302
Reserve for share-based compensation		68,258		67,262
Deficit		(726,577)		(705,834)
	$	605,281	$	608,730

A2. Directors' emoluments and other staff costs

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

	March 31, 2017	March 31, 2016
Directors' emoluments		
Directors' fees	$ 171	$ 175
Salaries and allowances	1,231	915
Share-based compensation	900	64
	2,302	1,154
Other staff costs		
Salaries and other benefits	1,101	1,462
Contribution to retirement benefit scheme	115	158
Share-based compensation	96	188
	1,312	1,808
Total staff costs, including directors' emoluments	3,614	2,962
Less: staff costs capitalized to qualifying assets	249	867
	$ 3,365	$ 2,095

Details of the Directors' emoluments are as follows:

A3. Directors' emoluments

For the three months ended March 31, 2017						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	21	150	$ -	267	$ -	438
Michael Hibberd	19	137	-	267	-	423
Hong Luo	14	124	-	114	-	252
Qi Jiang	15	765	-	114	-	894
Qiping Men	14	132	-	114	-	260
Jianzhong Chen[1]	10	-	-	4	-	14
Gerald Stevenson	19	-	-	4	-	23
Raymond Fong	14	-	-	4	-	18
Yi He	16	-	-	4	-	20
Joanne Yan	16	-	-	4	-	20
Xijuan Jiang	14	-	-	4	-	18
	$ 172	$ 1,308	$ -	$ 900	$ -	$ 2,380

1. Mr. Chen ceased as a director on April 6, 2017.

A3. Directors' emoluments (continued)

For the three months ended March 31, 2016						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation[8]	Performance related incentive payments	Total
Michael Hibberd	$ 20	$ -	$ -	$ 29	$ -	$ 49
Tseung Hok Ming	12	-	-	2	-	14
Raymond Fong	19	-	-	2	-	21
Robert Herdman	19	-	-	2	-	21
Gerald Stevenson	20	-	-	2	-	22
Jimmy Hu	11	-	-	-	-	11
Zhefei Song	15	-	-	-	-	15
Hong Luo	13	136	-	7	-	156
Qi Jiang	18	779	-	20	-	817
Kwok Ping Sun	18	-	-	-	-	18
Jianzhong Chen	10	-	-	-	-	10
	$ 175	$ 915	$ -	$ 64	$ -	$ 1,154

A4. Five highest paid individuals

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

For the three months ended March 31,	2017	2016
HKD $Nil to HKD $1,000,000	-	4
HKD $1,000,001 to HKD $1,500,000	1	-
HKD $1,500,001 to HKD $2,000,000	1	-
HKD $2,000,001 to HKD $2,500,000	1	-
HKD $2,500,001 to HKD $3,000,000	1	-
HKD $3,000,001 to HKD $3,500,000	-	-
HKD $3,500,001 to HKD $4,000,000	-	-
HKD $4,000,001 to HKD $4,500,000	-	-
HKD $4,500,001 to HKD $5,000,000	-	1
HKD $5,000,001 to HKD $5,500,000	1	-
HKD $5,500,001 to HKD $6,000,000	-	-
HKD $6,000,001 to HKD $6,500,000	-	-
HKD $6,500,001 to HKD $7,000,000	-	-
>HKD $$7,000,000	-	-

For the period ended March 31, 2017, the conversion factor used in the above table is $1CAD = $5.87HKD (three months ended March 31, 2016 -$1CAD = $5.66HKD).

The five highest paid individuals includes five directors of the Company for the three months ended March 31, 2017 (three month ended March 31, 2016 -- three directors of the Company and two key management executives of the Company). Since the directors' emoluments are disclosed above, the compensation of key management executives for the Company is as follows:

A4. Five highest paid individuals (continued)

For the three months ended March 31,		2017		2016
Salaries and other benefits	$	-	$	220
Contributions to retirement benefits scheme		-		3
Share-based compensation		-		15
	$	-	$	238

A5. Senior management remuneration by band

The emoluments fell within the following bands:

For the three months ended March 31,	2017	2016
HKD $Nil to HKD $1,000,000	1	4
HKD $1,000,001 to HKD $1,500,000	1	-
HKD $1,500,001 to HKD $2,000,000	1	-
HKD $2,000,001 to HKD $2,500,000	-	-
HKD $2,500,001 to HKD $3,000,000	1	-
HKD $3,000,001 to HKD $3,500,000	-	-
HKD $3,500,001 to HKD $4,000,000	-	-
HKD $4,000,001 to HKD $4,500,000	-	-
HKD $4,500,001 to HKD $5,000,000	-	1
HKD $5,000,001 to HKD $5,500,000	1	-
HKD $5,500,001 to HKD $6,000,000	-	-
HKD $6,000,001 to HKD $6,500,000	-	-
HKD $6,500,001 to HKD $7,000,000	-	-
> HKD $7,000,000	-	-

For the period ended March 31, 2017, the conversion factor used in the above table is $1CAD = $5.87HKD (three months ended March 31, 2016 -1CAD = $5.66HKD).

The table above includes the remuneration for the executive directors and executive officers of the Company. As at March 31, 2017, $0.1 million (2016 - $0.1 million) was the total payable to senior management and this was included in trade and accrued liabilities.