



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)*

## **2017 INTERIM REPORT**



## MESSAGE TO SHAREHOLDERS

On March 1, 2017, Sunshine Oilsands Ltd. (the “Corporation” or the “Company”) (HKEx2012) achieved a key milestone. The Project commenced commercial production. Hence, effective March 1, 2017, the Corporation started recording revenue, expenses and depletion of the West Ells Project.

### Sunshine’s Capital Raising Activities

On April 5, 2017 the Corporation entered into a subscription agreement for a total of 140,874,000 class “A” common shares at a price of HKD \$0.241 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$33.95 million (approximately CAD \$5.8 million). On April 13, 2017 the Corporation completed the closing of this subscription agreement.

On May 31, 2017 the Corporation entered into a subscription agreement for a total of 67,511,000 class “A” common shares at a price of HKD \$0.237 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$15.88 million (approximately CAD \$2.74 million). On June 7, 2017 the Corporation completed the closing of this subscription agreement. In addition, a placing commission of HKD \$122,314 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

### Summary of Financial Figures

#### **2Q17 net loss narrowed to CAD\$19.5 million**

**For the second quarter of the 2017, the Corporation’s net loss narrowed to CAD \$19.5 million from CAD \$21.2 million for 2017 Q1 and from CAD \$20.7 million for 2016 Q2, representing a net loss per share of CAD \$0.004, CAD \$0.004, and CAD \$0.005 for the 2017 Q2 period, 2017 Q1 period and 2016 Q2 period respectively**

The Corporation’s external auditor has not performed a review of the condensed consolidated interim financial statements for the three and six months ended June 30, 2017. As at June 30, 2017 and December 31, 2016, the Corporation notes the following selected balance sheet figures.

<i>(Canadian \$000s)</i>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Cash	\$4,544	\$13,635
Trade and other receivables	4,627	2,654
Prepaid expense and deposits	2,556	5,054
Exploration and evaluation assets	293,281	291,716
Property, plant and equipment	686,688	684,531
Total liabilities	397,876	390,135
Shareholders’ equity	593,820	607,455

### 2017 Outlook

Due to the extensive damage associated with the disastrous wild fire in Fort McMurray in May 2016, start up at West Ells was interrupted and delayed. Significant progress has been achieved since then. On March 1, 2017, the West Ells Phase I project commenced commercial production. The West Ells Phase I project is expected to ramp up to its Phase I designed capacity of 5,000 bbls/day. The Corporation continues to focus on carefully improving production performance and developing SAGD chambers, which will increase production at West Ells.

**Hong Luo**  
Chief Executive Officer

**Qiping Men**  
President & Chief Operating Officer



## **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 and six months ended June 30, 2017 is dated August 14, 2017. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and six months period ended June 30, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.*

### **Overview**

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.35 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2016 was approximately 2.21 billion barrels, a 0.31 billion barrels decrease from the December 31, 2015 resource evaluation. The Company also has 276 million barrels of proved plus probable ("2P") reserves and 379 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2016. The Company did not conduct an evaluation of its Carbonate assets given the current commodity price and the introduction of risk factors to the contingent resources, which would deem the Carbonates to be uneconomic. With approximately 1 million acres of oil sands and 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 June 30, 2017, the Company had invested approximately \$1.27 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at June 30, 2017, the Company had \$4.5 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 price, 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.

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

### **Changes in Accounting Policies**

For the three and six months period ended June 30, 2017 there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for the year ended December 31, 2016.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **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 2016 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, 2016, which is available at [www.sedar.com](http://www.sedar.com). The 2016 annual report of the Company is available at the Company's website at [www.sunshineoilsands.com](http://www.sunshineoilsands.com), and the website of the SEHK, [www.hkexnews.hk](http://www.hkexnews.hk). The Company's 2016 Annual Information Form is available at [www.sedar.com](http://www.sedar.com).

### **Disclosure Controls and Procedures**

Hong Luo, 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**

Hong Luo, 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 and six months period ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Advisory Section

#### *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.

#### *Non-IFRS Financial Measures*

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as operating netback, cash flow used in operations, operating loss and operating cash flow are non-GAAP measures. The MD&A also includes disclosure required under the Hong Kong Listing Rules, such as debt to asset ratio. These financial measures are not defined by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered as an alternative to or more meaningful than net income or net cash used in operating activities, as determined in accordance with IFRS.

#### *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:

(\$ thousands)	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Net cash used in operating activities	(6,286)	1,568	2,174	(4,488)
Add (deduct)				
Net change in non-cash operating working capital items	1,662	5,032	15,922	3,433
Cash flow used in operations	(7,948)	(3,464)	(13,748)	(7,921)



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Summary of Quarterly Results

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

(\$ thousands except per share)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Bitumen production (bbl/d) <sup>1</sup>	1,732	1,796	–	–	–	–	–	–
Petroleum sales	8,907	3,005	–	–	–	–	–	–
Royalties	86	20	–	–	–	–	–	–
Transportation	3,264	1,153	–	–	–	–	–	–
Operating costs	6,360	2,216	–	–	–	–	–	–
Finance cost	13,974	14,467	13,901	18,606	15,415	14,598	17,857	10,641
Cash flow from operations <sup>2</sup>	(7,948)	(5,800)	(2,959)	(2,692)	(3,464)	(4,457)	(4,644)	(5,853)
Net loss	19,479	21,169	23,237	26,564	20,736	2,773	325,761	30,413
Per share – basic and diluted	0.00	0.00	0.00	0.01	0.00	0.00	0.08	0.01
Capital expenditures <sup>3</sup>	1,862	4,679	8,690	12,038	6,939	9,822	28,823	37,104
Total assets	991,696	1,000,484	997,590	985,274	974,881	964,751	973,181	1,253,525
Working capital deficiency <sup>4</sup>	333,488	325,736	319,304	314,853	311,024	298,144	286,121	240,191
Shareholders' equity	593,820	603,580	607,455	603,348	595,286	601,577	604,098	917,110

1. Bitumen production volume for 2017 Q1 only for the one month ended March 31, 2017.
2. Cash flow from operations is a non-GAAP measure, which is defined in the Advisory section of the MD&A.
3. Included payments for exploration and evaluation, property, plant and equipment.
4. The working capital deficiency includes the USD \$198.7 million current portion of the Notes converted to CAD at each period end exchange rate.

### Bitumen Realization

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Dilbit revenue	8,907	–	11,912	–
Diluent blended <sup>1</sup>	(2,723)	–	(3,813)	–
Realized bitumen revenue <sup>2</sup>	6,184	–	8,099	–

1. Bitumen realization calculation for six month ended June 30, 2017 only includes four months from March 2017 to June 2017.
2. Realized bitumen revenue is used to calculate operating netbacks.

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 and six months ended June 30, 2017, the Company's bitumen realization revenue was \$6.2 million and \$8.1 million, respectively. This is the second quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Netbacks

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Realized bitumen revenue	6,184	–	8,099	–
Transportation	(3,264)	–	(4,417)	–
Royalties	(86)	–	(106)	–
Net bitumen revenues	2,834	–	3,576	–
Operating costs	(6,360)	–	(8,576)	–
Operating netback	(3,526)	–	(5,000)	–

1. Operating netback calculation for six month ended June 30, 2017 only includes four months from March 2017 to June 2017.
2. Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The Operating netback for the three and six months ended June 30, 2017 was a net loss of \$3.5 million and \$5.0 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.

### Cash Flows Summary

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Cash provided (used) in operating activities	(6,286)	1,568	2,174	(4,488)
Cash provided (used) in investing activities	(5,639)	(10,454)	(20,794)	2,217
Cash provided by financing activities	3,812	11,970	10,533	333
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(219)	(138)	(1,004)	(101)
Net (decrease)/increase in cash	(8,332)	2,946	(9,091)	(2,039)
Cash and cash equivalents, beginning of period	12,876	1,560	13,635	6,545
Cash and cash equivalents, end of period	4,544	4,506	4,544	4,506

### Operating Activities

Net cash used by operating activities for the three month period ended June 30, 2017 was \$6.3 million compared to cash provided of \$1.6 million in 2016, a decrease of \$7.9 million. Net cash used for operating activities included an increase in working capital of \$1.7 million for the three months period ended June 30, 2017 compared to an increase in working capital of \$5.0 million for the same period in 2016.

Net cash provided by operating activities for the six month period ended June 30, 2017 was \$2.2 million compared to cash used of \$4.5 million in 2016, an increase of \$6.7 million. Net cash provided by operating activities included an increase in working capital of \$15.9 million for the six months period ended June 30, 2017 compared to an increase in working capital of \$3.4 million for the same period in 2016.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Investing Activities**

Net cash used in investing activities for the three months period ended June 30, 2017 primarily consisted of \$1.9 million in capital investment and a \$3.8 million decrease in the net change in non-cash investing working capital. Net cash used in investing activities for the three months period ended June 30, 2016 primarily consisted of the release of restricted cash of \$0.6 million, offset by payments for property, plant and equipment of \$6.9 million, and an \$4.1 million decrease in the net change in non-cash investing working capital.

Net cash used in investing activities for the six months period ended June 30, 2017 primarily consisted of \$6.5 million in capital investment and a \$14.3 million decrease in the net change in non-cash investing working capital. Net cash used in investing activities for the six months period ended June 30, 2016 primarily consisted of the release of restricted cash of \$14.4 million, offset by payments for property, plant and equipment of \$16.8 million, and an \$4.6 million increase in the net change in non-cash investing working capital.

### **Financing Activities**

Net cash provided by financing activities for the three month period ended June 30, 2017 totalled \$3.8 million, which consisted of proceeds from the issuance of common shares of \$8.6 million less the payment of \$0.1 million in share issue cost, proceeds from the loan of \$1.7 million, offset by the principal repayment of \$1.8 million and the finance costs of \$13.7 million and an increase \$9.1 million in the net change in non-cash financing activities. Net cash provided by financing activities for the six months period ended June 30, 2017 totalled \$10.5 million, which consisted of proceeds from the issuance of common shares of \$25.3 million less the payment of \$0.5 million in share issue cost, proceeds from the debt of \$1.7 million, offset by the principal repayment of \$1.8 million and the finance costs of \$27.9 million and an increase \$13.7 million in the net change in non-cash financing activities.

Net cash generated for financing activities for the three month period ended June 30, 2016 totalled \$12.0 million, which consisted of proceeds from issue of common shares of \$14.8 million less the payment of \$0.1 million in share issue cost, proceeds from shareholder's loan of \$1.2 million, partially offset by finance costs of \$11.7 million and an increase \$8.0 million in the net change in non-cash financing activities. Financing activities for the six month period ended June 30, 2016 generated \$0.3 million, which consisted of proceeds from issue of common shares of \$14.8 million less the payment of \$0.1 million in share issue cost, proceeds from shareholder's loan of \$6.9 million, partially offset by finance costs of \$22.4 million, and an increase \$1.1 million in the net change in non-cash financing activities.

### **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 and six months period ended June 30, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016.

### **Income Taxes**

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and six month periods ended June 30, 2017 and 2016. 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 June 30, 2017, the Company had total available tax deductions of approximately \$1.4 billion, with unrecognized tax losses that expire between 2028 and 2035.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Expenditures

(\$ thousands)	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Exploration and evaluation	601	502	828	809
Property, plant and equipment				
West Eils	1,261	6,423	5,427	15,853
Company	–	14	286	(1)
	1,862	6,939	6,541	16,761

Capital expenditures made on exploration and evaluation assets and property, plant and equipment for three and six months ended June 30, 2017 are \$1.9 million and \$6.5 million in total, respectively.

On March 1 2017, the Company commenced commercial production and ceased the capitalization. Hence, the capital expenditure for the three and six month ended June 30, 2017 included Nil and \$0.4 million of the total capitalized general and administration respectively. For the three and six month ended June 30, 2016, the \$0.8 million and \$1.8 million of general and administration were capitalized into capital expenditures, respectively.

### Liquidity and Capital Resources

(\$ thousands)	June 30, 2017		December 31, 2016	
Working capital deficiency <sup>1</sup>	\$	333,488	\$	319,304
Shareholders' equity		593,820		607,455
	\$	927,308	\$	926,759

1. Senior secured notes are considered current as at June 30, 2017 and have been included in the working capital deficit as the maturity date is August 1, 2017.

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

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

On September 9, 2016, the Company 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 10) due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes ("YMP") 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.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Liquidity and Capital Resources** *(continued)*

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.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") 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 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 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 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 will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares,
- Make principal repayments to the Bondholders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On July 28, 2017, the Company updated the status of the Agreement according to FRA and NEA. The Company is required to, amongst other matters, repay the principal amount of notes, and any previous outstanding payment commitments on August 1, 2017. As at the date of this MD&A, the Company is still in negotiation with the noteholders in relation to the repayment commitment.

As of August 14, 2017, only USD \$1.5 million has been paid towards the Senior Notes, interest and YMP of which \$1.3 million was applied to the principal repayment. Other accrued interest, principal repayment and share issuances contemplated in the FRA were not met.

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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Liquidity and Capital Resources *(continued)*

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 June 30, 2017, the Company had incurred unsecured debt for a total of US\$1.3 million (CDN\$1.7 million equivalent) which is considered Permitted Debt.

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 June 30, 2017, the Company had incurred \$10.4 million (USD \$8.0 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 = \$1.2977 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.

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. 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, creditors, and prospective investors 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 June 30, 2017.

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 June 30, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

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

For the three and six months ended June 30, 2017, the Company reported a net loss of \$19.5 million and \$40.6 million. At June 30, 2017, the Company had a working capital deficiency of \$333.5 million including senior notes of \$257.8 million and an accumulated deficit of \$747.8 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 40% as at June 30, 2017, compared to 39% as at December 31, 2016.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which is denominated in US and Hong Kong dollars.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Liquidity and Capital Resources** *(continued)*

For the three and six month periods ended June 30, 2017, the Company had a foreign exchange gain of \$6.7 million and \$8.6 million compared to a \$2.0 million loss and \$14.1 million gain in the same period in 2016 respectively. The increase of \$8.7 million in foreign exchange for three month periods ended June 30, 2017, was primarily due to an increase of \$8.5 million unrealized gain on translation of the US denominated senior secured notes. The \$6.0 million of decrease in foreign exchange gain for six month periods ended June 30, 2016, was primarily due to \$5.7 million decrease in unrealized gain on translation of the US denominated senior secured notes.

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 and six months ended June 30, 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 June 30, 2017 would have been impacted by Nil and the carrying value of the senior notes at June 30, 2017 would have been impacted by \$2.6 million. At June 30, 2017, the Company held approximately USD \$0.03 million or \$0.04 million of cash, using the June 30, 2017 exchange rate of \$1USD = \$1.2977 CAD, 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 June 30, 2017 would have been impacted by approximately \$0.03 million and the carrying value of the debt at June 30, 2017 would have been impacted by \$0.02 million. At June 30, 2017, the Company held, after recent equity closings, approximately HKD \$18.0 million or \$3.0 million using the June 30, 2017 exchange rate of \$1CAD = \$6.0155 HKD, as cash in the Company's HKD bank account.

### **Transactions with Related Parties**

For the six months ended June 30, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.3 million (the six months ended June 30, 2016 – Nil) for management and advisory services.

In 2016 and during the six months ended June 30, 2017, 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 in 2016.

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, could 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 (Note 13). As at December 31, 2016 and June 30, 2017, both the Loan and Second loan balances were Nil.

### **Off-balance Sheet Arrangements**

The Company has certain lease agreements which are reflected in the table included under the heading "Commitments and contingencies" in the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016. No asset or liability value was assigned to these agreements on the Company's balance sheet. As at June 30, 2017, the Company did not have any other off-balance sheet arrangements.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Subsequent Events

On June 5, 2017, the Company entered into a Subscription Agreement with Prime Union at the issue price of HKD \$0.234 per Common Shares (approximately CAD \$0.041 per Common Share) for an aggregate cash consideration of HKD 106.5 million (approximately CAD \$18.5 million). Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company. The subscription would be issued pursuant to the special mandate to be sought from the Independent Shareholders at a Special General Meeting ("SGM"). On August 4, SGM was held in Sunshine Hong Kong office, and the subscription agreement was duly passed as an ordinary resolution.

On July 28, 2017, the Company updated the status of the Agreement According to FRA and NEA. The Company is required to, amongst other matters, repay notes principal, and any previous outstanding payment commitments on August 1, 2017. As at August 14, 2017, the Company is still in negotiation with the noteholders in relation to the repayment commitment.

### 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 June 30, 2017.

Name	December 31, 2016	Granted	Exercised	Forfeited	Expired	June 30, 2017
Mr. Kwok Ping Sun	46,679,000	-	-	-	-	46,679,000
Mr. Michael Hibberd	58,439,000	-	-	-	-	58,439,000
Mr. Hong Luo	23,000,000	-	-	-	-	23,000,000
Ms. Gloria Ho <sup>(1)</sup>	5,000,000	-	-	-	-	5,000,000
Mr. Qiping Men	22,555,556	-	-	-	-	22,555,556
Mr. Raymond Fong	1,510,000	1,500,000	-	-	-	3,010,000
Mr. Yi He	1,000,000	1,500,000	-	-	-	2,500,000
Ms. Joanne Yan	1,000,000	1,500,000	-	-	-	2,500,000
Ms. Linna Liu <sup>(2)</sup>	-	-	-	-	-	-
Mr. Jingfang Liu <sup>(3)</sup>	-	-	-	-	-	-
Ms. Xijuan Jiang	1,000,000	-	-	-	-	1,000,000
Mr. Jianzhong Chen <sup>(4)</sup>	1,000,000	-	-	-	-	1,000,000
Dr. Qi Jiang <sup>(5)</sup>	30,000,000	-	-	-	-	30,000,000
Mr. Gerald Stevenson <sup>(6)</sup>	1,510,000	1,500,000	-	-	-	3,010,000
Sub-total for Directors	192,693,556	6,000,000	-	-	-	198,693,556
Sub-total for other share option holders	66,046,913	8,069,058	-	(12,515,379)	(7,963,354)	53,637,238
<b>Total</b>	<b>258,740,469</b>	<b>14,069,058</b>	<b>-</b>	<b>(12,515,379)</b>	<b>(7,963,354)</b>	<b>252,330,794</b>

1. Ms. Ho was appointed an executive director on June 27, 2017.
2. Ms. Liu was appointed a non-executive director on April 6, 2017.
3. Mr. Liu was appointed a non-executive director on June 27, 2017.
4. Mr. Chen ceased as director on April 6, 2017.
5. Mr. Jiang ceased as director on June 27, 2017.
6. Mr. Stevenson ceased as director on June 27, 2017.

Please refer to our consolidated financial statements included in the 2016 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2016.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended June 30, 2017 was \$0.12 (year ended December 31, 2016—\$0.13). 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 2017 and 2016. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 14.64% to 14.76% for the six months ended June 30, 2017.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the six month ended June 30, 2017 and year ended December 31, 2016.

Input Variables	Period ended June 30, 2017	Year ended December 31, 2016
Grant date share price (\$)	0.044-0.05	0.058-0.10
Exercise Price (\$)	0.044-0.05	0.058-0.10
Expected volatility (%)	73.23-74.72	66.40-70.70
Option life (years)	3.76-3.79	3.76-4.07
Risk-free interest rate (%)	0.93-1.23	0.56-0.88
Expected forfeitures (%)	14.64-14.76	13.39-14.65

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

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 at a price of 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 report and hence the time for the completion of the remaining 110,000,000 Common Shares has lapsed.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Fair Value of Share Options Granted** *(continued)*

On April 5, 2017 the Company entered into a subscription agreement for a total of 140,874,000 class "A" common shares at a price of HKD \$0.241 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$33.95 million (approximately CAD \$5.8 million). On April 13, 2017 the Company completed the closing of this subscription agreement.

On May 31, 2017 the Company entered into a subscription agreement for a total of 67,511,000 class "A" common shares at a price of HKD \$0.237 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$15.88 million (approximately CAD \$2.74 million). On June 7, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$122,314 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

The proceeds from the above placements were mainly used (i) for general working capital of the Company and (ii) as funds for future development of the existing business of the Company, including funding the operation costs of the West Ells project.

During the six months ended 30 June 2017, the Company has not purchased or redeemed any of its listed securities.

### **Employees**

As at June 30, 2017, the Company has a total of 47 full-time employees. The staff costs amounted to CAD \$1.8 million.

### **Shares Outstanding**

As at August 14, 2017, the Company had 5,558,336,358 Common Shares and 252,081,344 stocks options issued and outstanding.

### **Dividends**

The Company has not declared or paid any dividends in respect of the six months period ended June 30, 2017 (six months period ended June 30, 2016 – \$Nil).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Disclosure of interests

#### *(a) Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares or Debentures*

As at June 30, 2017, the interests and short positions of the Directors and chief executive of the Corporation in the shares of the Corporation or its associated corporations (within the meaning of Part XV of the SFO, which were required (a) to be notified to the Corporation and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them had taken or was deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Corporation pursuant to section 352 of the SFO; or (c) to be notified to the Corporation and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

#### *Director's long position in the Company*

##### (i) Common Shares

Name	Company	Nature of Interest	Number of Common Shares Held	Approximate % interest in the Common Shares
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd	Direct/Indirect	1,277,202,500	22.98%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	103,574,685	1.86%
Mr. Hong Luo	Sunshine Oilsands Ltd.	N/A	–	0.00%
Mr. Qiping Men	Sunshine Oilsands Ltd.	Direct	1,049,541	0.02%
Ms. Gloria Ho <sup>(1)</sup>	Sunshine Oilsands Ltd.	N/A	–	0.00%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct/Indirect	9,250,621	0.17%
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	1,600,000	0.03%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	N/A	–	0.00%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	Direct/Indirect	300,000	0.01%
Ms. Linna Liu <sup>(2)</sup>	Sunshine Oilsands Ltd.	N/A	–	0.00%
Mr. Jingfeng Liu <sup>(3)</sup>	Sunshine Oilsands Ltd.	Direct	600,000	0.01%
Mr. Jiangzhong Chen <sup>(4)</sup>	Sunshine Oilsands Ltd.	N/A	–	0.00%
Dr. Qi Jiang <sup>(5)</sup>	Sunshine Oilsands Ltd.	Direct	775,350	0.01%
Mr. Gerald Stevenson <sup>(6)</sup>	Sunshine Oilsands Ltd.	Direct	184,621	0.01%



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Disclosure of interests (continued)

#### (a) Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares or Debentures (continued)

##### Director's long position in the Company (continued)

##### (ii) Stock Options

Name	Company	Nature of Interest	Number of Options Held	Approximate % interest in the options
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd	Direct/Indirect	46,679,000	18.50%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	58,439,000	23.16%
Mr. Hong Luo	Sunshine Oilsands Ltd.	N/A	23,000,000	9.12%
Mr. Qiping Men	Sunshine Oilsands Ltd.	Direct	22,555,556	8.94%
Ms. Gloria Ho <sup>(1)</sup>	Sunshine Oilsands Ltd.	N/A	5,000,000	1.98%
Mr. Raymond Fong	Sunshine Oilsands Ltd.	Direct/Indirect	3,010,000	1.19%
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	2,500,000	0.99%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	N/A	2,500,000	0.99%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	Direct/Indirect	1,000,000	0.40%
Ms. Linna Liu <sup>(2)</sup>	Sunshine Oilsands Ltd.	N/A	–	0.00%
Mr. Jingfeng Liu <sup>(3)</sup>	Sunshine Oilsands Ltd.	Direct	–	0.00%
Mr. Jiangzhong Chen <sup>(4)</sup>	Sunshine Oilsands Ltd.	N/A	1,000,000	0.40%
Dr. Qi Jiang <sup>(5)</sup>	Sunshine Oilsands Ltd.	Direct	30,000,000	11.89%
Mr. Gerald Stevenson <sup>(6)</sup>	Sunshine Oilsands Ltd.	Direct	3,010,000	1.19%

##### Notes:

1. Ms. Ho was appointed as an executive director on June 27, 2017.
2. Ms. Liu was appointed as a non-executive director on April 6, 2017.
3. Mr. Liu was appointed as an executive director on June 27, 2017.
4. Mr. Chen ceased as director on April 6, 2017.
5. Mr. Jiang ceased as director on June 27, 2017.
6. Mr. Stevenson ceased as director on June 27, 2017.

Save as disclosed above, as at June 30, 2017, none of the Directors or chief executive of the Corporation had interests or short positions in the shares, underlying shares or debentures of the Corporation and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Corporation and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Corporation pursuant to section 352 of the SFO; or (c) to be notified to the Corporation and the Hong Kong Stock Exchange pursuant to the Model Code.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Disclosure of interests *(continued)*

#### ***(b) Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares***

As at June 30, 2017, according to the register of interests kept by the Corporation under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Corporation, the following persons (other than the Directors or chief executive of the Corporation) had an interest or short position in the Shares which would require to be disclosed by the Corporation under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Corporation:

Name	Nature of Interest	Number of Common Shares Held	Approximate % interest in the Common Shares
Mr. Tseung Hok Ming	Beneficial	295,893,656	5.32%

(1) All positions are long positions.

Save as disclosed above, as at Latest Practicable Date, none of the substantial shareholders of the Corporation had an interest or short position in the Shares which would require to be disclosed by the Corporation under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 5% or more of the nominal value of any (a) Director's Share Options class of share capital carrying rights to vote in all circumstances at general meeting of the Corporation.

### 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 six month ended June 30, 2017, the average bitumen production was 1,669 bbls/day. Diluent is blended at a 21.5% 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 2,129 bbls/day.

#### ***Thickwood and Legend***

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2017. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, additional significant financing will need to be secured to proceed.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

A thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015. During the final quarter of 2014, Muskwa cold production wells were suspended by the joint venture partner due to low oil prices.

### **Additional Stock Exchange Information**

Additional information required by the SEHK and not shown elsewhere in this report 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 complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

### **Review of interim results**

The condensed consolidated interim financial statements for the Company for the three and six month periods ended June 30, 2017, were reviewed by the Audit Committee of the Company and approved by the Board.

### **Publication of Information**

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

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

### **Outlook**

Due to the extensive damage associated with the disastrous wild fire in Fort McMurray in May 2016, start up at West Ells was interrupted and delayed. Significant progress has been achieved since then. On March 1, 2017, the West Ells Phase I project commenced commercial production. The West Ells Phase I project is expected to ramp up to its Phase I design capacity of 5,000 bbls/day. The Company continues to focus on carefully improving production performance and developing SAGD chambers, which will increase production at West Ells.

The oil and gas industry in North America continues to operate in a challenging commodity price environment. Due to market instability and volatile commodity prices that have trended lower over past months, Sunshine continues to remain optimistic about long-term outlook for oil and gas commodity prices.



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

	Notes	June 30, 2017	December 31, 2016
<b>Assets</b>			
<i>Current assets</i>			
Cash	4	\$ 4,544	\$ 13,635
Trade and other receivables	5	4,627	2,654
Prepaid expenses and deposits	6	2,556	5,054
		11,727	21,343
<i>Non-current assets</i>			
Exploration and evaluation	7	293,281	291,716
Property, plant and equipment	8	686,688	684,531
		979,969	976,247
		\$ 991,696	\$ 997,590
<b>Liabilities and Shareholders' Equity</b>			
<i>Current liabilities</i>			
Trade and accrued liabilities	9	\$ 85,746	\$ 71,526
Provisions	11	–	581
Bond	10	259,469	268,540
		345,215	340,647
<i>Non-current liabilities</i>			
Provisions	11	52,661	49,488
		397,876	390,135
<b>Shareholders' Equity</b>			
Share capital	13	1,272,090	1,247,302
Reserve for share-based compensation		69,487	67,262
Deficit		(747,757)	(707,109)
		593,820	607,455
		\$ 991,696	\$ 997,590

Going concern (Note 2)  
Commitments and contingencies (Note 26)  
Subsequent events (Note 28)

Approved by the Board

**Joanne Yan**  
*Independent Non-Executive Director*

**Qiping Men**  
*Executive Director*



## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<b>Revenues and Other Income</b>					
Petroleum sales, net of royalties	15	\$ 8,821	\$ –	\$ 11,806	\$ –
Other income	16	5	10	10	28
		<u>8,826</u>	<u>10</u>	<u>11,816</u>	<u>28</u>
<b>Expenses</b>					
Diluent	17	2,723	–	3,813	–
Transportation	18	3,264	–	4,417	–
Operating	19	6,360	–	8,576	–
General and administrative	20	3,840	3,470	8,156	7,297
Finance costs	21	13,974	15,415	28,441	30,013
Stock based compensation	14.2	1,229	(318)	2,208	(157)
Foreign exchange (gains)/losses	23.3	(6,683)	2,038	(8,611)	(14,050)
Contract provision expense	11.2	–	–	–	142
Depletion, depreciation and impairment	7, 8	3,598	141	5,464	292
		<u>\$ 28,305</u>	<u>\$ 20,746</u>	<u>\$ 52,464</u>	<u>\$ 23,537</u>
Loss before income taxes		19,479	20,736	40,648	23,509
Income taxes	12	–	–	–	–
Net loss and comprehensive loss for the period attributable to equity holders of the Company		<u>\$ 19,479</u>	<u>\$ 20,736</u>	<u>\$ 40,648</u>	<u>\$ 23,509</u>
Basic and diluted loss per share	22	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01

See accompanying notes to Condensed Consolidated Interim Financial Statements.



## CONDENSED INTERIM CONSOLIDATED 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		–	–	(40,648)	(40,648)
Issue of common shares	13.1	–	25,315	–	25,315
Recognition of share-based compensation	14.2	2,225	–	–	2,225
Share issue costs, net of deferred tax (\$Nil)	13.1	–	(527)	–	(527)
<b>Balance, June 30, 2017</b>		<b>\$ 69,487</b>	<b>\$ 1,272,090</b>	<b>\$ (747,757)</b>	<b>\$ 593,820</b>
Balance, December 31, 2015		\$ 62,910	\$ 1,174,987	\$ (633,799)	\$ 604,098
Net loss and comprehensive loss for the period		–	–	(23,509)	(23,509)
Issue of common shares	13.1	–	14,818	–	14,818
Recovery of share-based compensation	14.2	(24)	–	–	(24)
Share Issue costs, net of deferred tax (\$Nil)	13.1	–	(97)	–	(97)
<b>Balance, June 30, 2016</b>		<b>\$ 62,886</b>	<b>\$ 1,189,708</b>	<b>\$ (657,308)</b>	<b>\$ 595,286</b>

See accompanying notes to the Condensed Consolidated Interim Financial Statements.



## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<i>Cash flows from operating activities</i>					
Net loss		\$ (19,479)	\$ (20,736)	\$ (40,648)	\$ (23,509)
Finance costs	21	13,974	15,415	28,441	30,013
Unrealized foreign exchange losses/(gains)	23.3	(6,684)	2,044	(8,622)	(14,607)
Contract provision expense	11.2	(581)	–	(581)	75
Interest income	16	(5)	(10)	(10)	(23)
Gain on sale of assets	8, 16	–	–	–	(2)
Fair value adjustment on share purchase warrants	13.2	–	–	–	(3)
Depletion and depreciation	7, 8	3,598	141	5,464	292
Share-based payment expense	14.2	1,229	(318)	2,208	(157)
Movement in non-cash working capital	27	1,662	5,032	15,922	3,433
<b>Net cash provided by (used in) operating activities</b>		<b>(6,286)</b>	<b>1,568</b>	<b>2,174</b>	<b>(4,488)</b>
<i>Cash flows from investing activities</i>					
Interest received		5	10	10	23
Payments for exploration and evaluation assets	7	(601)	(502)	(828)	(809)
Proceeds from sale of assets		–	–	–	2
Payments for property, plant and equipment	8	(1,261)	(6,437)	(5,713)	(15,952)
Release of restricted cash to fund long-term debt interest payments	4	–	564	–	14,389
Movement in non-cash working capital	27	(3,782)	(4,089)	(14,263)	4,564
<b>Net cash provided by (used in) investing activities</b>		<b>(5,639)</b>	<b>(10,454)</b>	<b>(20,794)</b>	<b>2,217</b>
<i>Cash flows from financing activities</i>					
Proceeds from issue of common shares	13.1	8,574	14,818	25,315	14,818
Payment for share issue costs	13.1	(84)	(97)	(527)	(97)
Payment for finance costs	21	(13,703)	(11,746)	(27,896)	(22,419)
Payment for the notes principal	10	(1,832)	–	(1,832)	–
Proceeds from unsecured note	10	1,733	1,150	1,733	6,941
Movement in non-cash working capital	27	9,124	7,845	13,740	1,090
<b>Net cash provided by financing activities</b>		<b>3,812</b>	<b>11,970</b>	<b>10,533</b>	<b>333</b>
Effect of exchange rate changes on cash held in foreign currency	23.3	(219)	(138)	(1,004)	(101)
Net (decrease)/increase in cash and cash equivalents, beginning of period		(8,332)	2,946	(9,091)	(2,039)
<b>Cash and cash equivalents, end of period</b>		<b>\$ 4,544</b>	<b>\$ 4,506</b>	<b>\$ 4,544</b>	<b>\$ 4,506</b>

See accompanying notes to the Condensed Consolidated Interim Financial Statements.



## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **Notes to the Condensed Consolidated Interim Financial Statements**

For the three months and six months ended June 30, 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 June 30, 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 June 30, 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.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 2. Basis of preparation (continued)

#### *Going concern (continued)*

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 June 30, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

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

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

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

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

- 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 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 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.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

#### *Going concern (continued)*

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 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.

On July 28, 2017, the Company updated the status of the Agreement According to FRA and NEA. The Company is required to, amongst other matters, repay notes principal, and any previous outstanding payment commitments on August 1, 2017. As at the date of this report, the Company is still in negotiation with the noteholders in relation to the repayment commitment.

As of August 14, 2017, only USD \$1.5 million was made towards the Senior Notes, interest and YMP of which \$1.3 million was applied to the principal repayment. Other accrued interest, principal repayment and share issuances contemplated in the FRA and NEA were not met.

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

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



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 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 23). 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 and six months ended June 30, 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

	June 30, 2017		December 31, 2016	
Current asset				
Cash <sup>1</sup>	\$	4,544	\$	13,635
	\$	4,544	\$	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

	June 30, 2017		December 31, 2016	
Petroleum receivable	\$	2,591	\$	–
Trade receivable		1,998		1,434
Other		38		1,220
	\$	4,627	\$	2,654

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:

	June 30, 2017		December 31, 2016	
0 – 30 days	\$	2,707	\$	1,205
31 – 60 days		130		1
61 – 90 days		4		11
>90 days		1,786		1,437
	\$	4,627	\$	2,654

### 6. Prepaid expenses and deposits

	June 30, 2017		December 31, 2016	
Prepaid expenses	\$	1,780	\$	1,067
Deposits		776		3,987
	\$	2,556	\$	5,054

As at June 30, 2017, the deposits include Nil held with the Alberta Energy Regulator for the Licensee Liability Rating Program (on February 22, 2017, \$3.2 million was refunded in total). The remaining deposits include ordinary business deposits of \$0.8 million.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 7. Exploration and evaluation

	<b>June 30, 2017</b>
<b>Balance, December 31, 2015</b>	\$ 290,945
Capital expenditures	1,344
Non-cash expenditures <sup>1</sup>	(573)
<b>Balance, December 31, 2016</b>	\$ 291,716
Capital expenditures	828
Non-cash expenditures <sup>1</sup>	737
<b>Balance, June 30, 2017</b>	\$ 293,281

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 June 30, 2017, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at previous year) of the E&E Assets.

### 8. Property, plant and equipment

	<b>Crude oil assets</b>		<b>Corporate assets</b>		<b>Total</b>
<b>Cost</b>					
<b>Balance, December 31, 2015</b>	\$	853,848	\$	4,462	\$ 858,310
Capital expenditures		35,970		175	36,145
Non-cash expenditures <sup>1</sup>		(1,997)		-	(1,997)
<b>Balance, December 31, 2016</b>	\$	887,821	\$	4,637	\$ 892,458
Capital expenditures		5,430		283	5,713
Non-cash expenditures <sup>1</sup>		1,908		-	1,908
<b>Balance, June 30, 2017</b>	\$	895,159	\$	4,920	\$ 900,079

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

	<b>Crude oil assets</b>		<b>Corporate assets</b>		<b>Total</b>
<b>Accumulated depletion, depreciation and impairment</b>					
<b>Balance, December 31, 2015</b>	\$	205,000	\$	2,380	\$ 207,380
Depletion and depreciation expense		-		547	547
<b>Balance, December 31, 2016</b>	\$	205,000	\$	2,927	\$ 207,927
Depletion and depreciation expense		5,211		253	5,464
<b>Balance, June 30, 2017</b>	\$	210,211	\$	3,180	\$ 213,391
Carrying value, December 31, 2016	\$	682,821	\$	1,710	\$ 684,531
<b>Carrying value, June 30, 2017</b>	\$	<b>684,948</b>	\$	<b>1,740</b>	<b>\$ 686,688</b>

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 and six months ended June 30, 2017.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 8. Property, plant and equipment (continued)

The Company also commenced recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three and six months ended June 30, 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 six months ended June 30, 2017, the Company capitalized directly attributable costs of \$0.02 million for share-based compensation (six months ended June 30, 2016 – \$0.1 million) and \$0.4 million for general and administrative costs (six months ended June 30, 2016 – \$1.8 million).

As at June 30, 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

	June 30, 2017		December 31, 2016	
Trade	\$	21,305	\$	27,341
Accrued liabilities		64,441		44,185
	\$	85,746	\$	71,526

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

	June 30, 2017		December 31, 2016	
Trade				
0 – 30 days	\$	2,369	\$	4,514
31 – 60 days		574		1,343
61 – 90 days		470		750
> 91 days		17,892		20,734
		21,305		27,341
Accrued liabilities		64,441		44,185
	\$	85,746	\$	71,526

### 10. Senior notes

	June 30, 2017		December 31, 2016	
Senior secured notes	\$	257,806	\$	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 period	\$	257,806	\$	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.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 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 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 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.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") 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 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; and
- 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 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 will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares,
- Make principal repayments to the Bondholders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**10. Senior notes** *(continued)*

On July 28, 2017, the Company updated the status of the Agreement according to FRA and NEA. The Company is required to, amongst other matters, repay notes principal, and any previous outstanding payment commitments on August 1, 2017. As at the date of this report, the Company is still in negotiation with the noteholders in relation to the repayment commitment.

As of August 14, 2017, only USD \$1.5 million was made towards the Senior Notes, interest and YMP of which \$1.3 million was applied to the principal repayment. Other accrued interest, principal repayment and share issuances contemplated in the FRA were not met.

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 June 30, 2017, the Company had incurred unsecured third party debt for a total of US\$1.3 million (CDN\$1.7 million equivalent) which is considered Permitted Debt.

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 June 30, 2017, the Company had incurred \$10.4 million (USD \$8.0 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 = \$1.2977 CAD.

**11. Provisions**

	<b>June 30, 2017</b>		<b>December 31, 2016</b>	
Decommissioning obligations (Note 11.1)	\$	52,661	\$	49,488
Contract provision (Note 11.2)		–		581
	\$	52,661	\$	50,069
Presented as:				
Provisions (current)	\$	–	\$	581
Provisions (non-current)	\$	52,661	\$	49,488

**11.1 Decommissioning obligations**

As at June 30, 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 of 0.73% to 2.14% per annum and inflated using an inflation rate of 2.0% per annum.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 11.1 Decommissioning obligations (continued)

	June 30, 2017		December 31, 2016	
Balance, beginning of year	\$	49,488	\$	51,656
Effect of changes in discount rate		2,628		(3,128)
Unwinding of discount rate		545		960
	\$	52,661	\$	49,488
Current portion		–		–
Balance, end of year	\$	52,661	\$	49,488

### 11.2 Contract provision

As at June 30, 2017, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of Nil (December 31, 2016 – \$0.6 million). On April 5, 2017 the Company entered into debt settlement agreement with the Creditor, the Company agreed to allot and issue the Relevant Shares to the creditor as full and final settlement of the liability provision and Partial debt. On April 13, 2017, all the conditions of the placing were fulfilled and the all the provision and partial debt with the creditor was settled.

## 12. Income taxes

### 12.1 Deferred tax balances

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

	June 30, 2017		December 31, 2016	
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	\$	(116,373)	\$	(119,980)
Decommissioning liabilities		14,218		13,362
Share issue costs		2,174		1,754
Non-capital losses		212,911		193,894
Deferred tax benefits not recognized		(112,930)		(89,030)
	\$	–	\$	–

### 12.2 Tax pools

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

	June 30, 2017		December 31, 2016	
Canadian development expense	\$	44,696	\$	36,163
Canadian exploration expense		230,935		230,926
Undepreciated capital cost		276,923		264,788
Non-capital losses		788,558		718,126
Share issue costs		8,052		6,497
	\$	1,349,164	\$	1,256,500

The Company's non-capital losses of \$788,558 (December 31, 2016 – \$718,126), expire between 2028 and 2035.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 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

		June 30, 2017		December 31, 2016
Common shares	\$	1,272,090	\$	1,247,302

#### 13.1 Common shares

	June 30, 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	555,735,000	25,315	358,575,588	20,345
Issue of shares under share option plan	–	–	241,666	15
Share option reserve transferred on exercise of stock options	–	–	–	10
Share issue costs, net of deferred tax (\$Nil)	–	(527)	–	(405)
Balance, end of year	5,558,336,358	1,272,090	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



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 13.1 Common shares (continued)

#### General mandate (continued)

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 report and hence the time to close the remaining 110,000,000 Common Shares has lapsed.

On April 5, 2017 the Company entered into a subscription agreement for a total of 140,874,000 class “A” common shares at a price of HKD \$0.241 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$33.95 million (approximately CAD \$5.8 million). On April 13, 2017 the Company completed the closing of this subscription agreement.

On May 31, 2017 the Company entered into a subscription agreement for a total of 67,511,000 class “A” common shares at a price of HKD \$0.237 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$15.88 million (approximately CAD \$2.74 million). On June 7, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$122,314 (approximately CAD \$0.02 million), was incurred in relation to the Closing.

### 13.2 Share purchase warrants

	June 30, 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 year:

	Period ended June 30, 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	14,069,058	0.05	215,539,909	0.09
Exercised	–	–	(241,666)	0.06
Forfeited	(12,515,379)	0.10	(45,542,821)	0.29
Expired	(7,963,354)	0.13	(6,569,739)	0.44
Balance, end of period	252,330,794	0.12	258,740,469	0.13
Exercisable, end of period	115,924,022	0.16	122,243,920	0.17

As at June 30, 2017, stock options outstanding had a weighted average remaining contractual life of 3.8 years (December 31, 2016 – 4.4 years).



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 14.2 Share-based compensation

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

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ 1,229	\$ –	\$ 1,229	\$ (318)	\$ 42	\$ (276)

	Six months ended June 30, 2017			Six months ended June 30, 2016		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ 2,208	\$ 17	\$ 2,225	\$ (157)	\$ 133	\$ (24)

### 15. Petroleum revenue, net of royalties

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Petroleum sales	\$ 8,907	\$ –	\$ 11,912	\$ –
Royalties	(86)	–	(106)	–
Balance, end of period	\$ 8,821	\$ –	\$ 11,806	\$ –

1. Petroleum Revenue, net of royalties for six month ended June 30, 2017 only includes four months from March 2017 to June 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 and six month ended June 30, 2017

### 16. Other income

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest income	\$ 5	\$ 10	\$ 10	\$ 23
Gain on sale of assets	–	–	–	2
Fair value adjustment on share purchase warrants	–	–	–	3
Total	\$ 5	\$ 10	\$ 10	\$ 28



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 17. Diluent costs

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Diluent	(2,723)	–	(3,813)	–
Blend Ratio	18.6%	–	19.2%	–

1. Diluent purchased for six month ended June 30, 2017 only includes four months from March 2017 to June 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, 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. dollars.

### 18. Transportation

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Transportation	3,264	–	4,417	–

1. Transportation costs for six month ended June 30, 2017 only includes four months from March 2017 to June 2017.

The Company's transportation expense in the three and six months ended June 30, 2017 was \$3.3 million and \$4.4 million respectively. Transportation cost includes trucking costs for dilbit, and pipeline terminals fees.

### 19. Operating costs

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Energy operating costs	1,830	–	2,337	–
Non-energy operating costs	4,530	–	6,239	–
Operating costs	6,360	–	8,576	–

1. Operating costs for six month ended June 30, 2017 only includes four months from March 2017 to June 2017.

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

The Company incurred total operating costs of \$6.4 million and \$8.6 million for the three and six months ended June 30, 2017 respectively.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**20. General and administrative costs**

	Three months ended June 30,					
	2017			2016		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 1,810	\$ –	\$1,810	\$ 2,234	\$626	\$1,608
Rent	571	–	571	520	176	344
Legal and audit	293	–	293	419	–	419
Other	1,166	–	1,166	1,121	22	1,099
<b>Total</b>	<b>\$ 3,840</b>	<b>\$ –</b>	<b>\$3,840</b>	<b>\$ 4,294</b>	<b>\$824</b>	<b>\$3,470</b>

	Six months ended June 30,					
	2017			2016		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 4,428	\$232	\$4,196	\$ 4,944	\$1,402	\$3,542
Rent	1,186	151	1,035	1,071	378	693
Legal and audit	857	–	857	1,135	–	1,135
Other	2,085	17	2,068	1,967	40	1,927
<b>Total</b>	<b>\$ 8,556</b>	<b>\$400</b>	<b>\$8,156</b>	<b>\$ 9,117</b>	<b>\$1,820</b>	<b>\$7,297</b>

The Company capitalized a portion of the general and administrative cost for the first two months of the year. Effective March 1, 2017. The Company ceased the capitalization of portions of the general and administrative cost.

**21. Finance costs**

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
Interest expense on senior notes	\$ 8,635	\$ 6,374	\$ 17,595	\$ 12,614				
Interest expense on the unsecured debt	4	99	4	136				
Amortization of financing transaction costs and discount	–	3,419	–	7,084				
Redemption/yield maintenance premium	4,979	4,894	9,701	9,241				
Financing related costs/(recovery)	85	379	596	428				
Unwinding of discounts on provisions	271	250	545	510				
<b>Total</b>	<b>\$ 13,974</b>	<b>\$ 15,415</b>	<b>\$ 28,441</b>	<b>\$ 30,013</b>				

**22. 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.

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
Basic and Diluted – Class “A” common shares	5,487,763,721	4,305,613,719	5,278,630,225	4,267,938,912				
<b>Loss per share</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>				



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 23. Financial instruments

#### 23.1 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 Elys 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:

	June 30, 2017		December 31, 2016	
Working capital deficiency	\$	333,488	\$	319,304
Shareholders' equity		593,820		607,455
	\$	927,308	\$	926,759

The Company's working capital deficiency of \$333.5 million at June 30, 2017, includes the \$257.8 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 June 30, 2017.

#### 23.2 Categories of financial instruments

	June 30, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash, restricted cash and cash equivalents, prepaid expenses, deposits and trade and other receivables	\$11,727	\$11,727	\$21,343	\$21,343
<b>Financial liabilities</b>				
Trade and accrued liabilities	85,746	85,746	71,526	71,526
Debt	259,469	259,469	268,540	268,540

#### 23.3 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 June 30, 2017.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**23.3 Currency risk (continued)**

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 June 30, 2017 would have been impacted by Nil and the carrying value of the senior notes at June 30, 2017 would have been impacted by \$2.6 million. At June 30, 2017 the Company held approximately USD \$0.03 million or \$0.04 million of cash, using the June 30, 2017 exchange rate of \$1USD = \$1.2977 CAD, 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 June 30, 2017 would have been impacted by approximately \$0.03 million and the carrying value of the debt at June 30, 2017 would have been impacted by \$0.02 million. At June 30, 2017, the Company held, after recent equity closings, approximately HKD \$18.0 million or \$3.0 million using the June 30, 2017 exchange rate of \$1CAD = \$6.0155 HKD, as cash in the Company's HKD bank account.

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

	Three months ended June 30, 2017		2016		Six months ended June 30, 2017		2016	
Unrealized foreign exchange loss/(gain) on translation of:								
U.S. denominated senior secured notes	\$	(6,802)	\$	1,734	\$	(8,903)	\$	(14,568)
H.K. denominated unsecured debt		(70)		39		(70)		(335)
Foreign currency denominated cash balances		219		137		1,004		100
Foreign currency denominated accounts payable balances		(31)		134		(653)		196
		(6,684)		2,044		(8,622)		(14,607)
Realized foreign exchange loss		1		(6)		11		557
<b>Total foreign exchange loss/(gain)</b>	<b>\$</b>	<b>(6,683)</b>	<b>\$</b>	<b>2,038</b>	<b>\$</b>	<b>(8,611)</b>	<b>\$</b>	<b>(14,050)</b>

**23.4 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 June 30, 2017, the Company had negative working capital of \$333.5 million and an accumulated deficit of \$747.8 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 June 30, 2017, are as follows:

	Total		Less than 1 year		1-2 years	
Trade and accrued liabilities	\$	85,746	\$	85,746	\$	–
Debt <sup>1</sup>		259,469		259,469		–
	<b>\$</b>	<b>345,215</b>	<b>\$</b>	<b>345,215</b>	<b>\$</b>	<b>–</b>

1. Principal amount of Notes based on the period end exchange rate of \$1USD = \$1.2977CAD and \$1HKD = \$0.1662CAD.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 24. Related party transactions

#### 24.1 Trading transactions

For the six months ended June 30, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.3 million (the six months ended June 30, 2016 – Nil) for management and advisory services.

In 2016 and during the six months ended June 30, 2017, 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, could 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 (Note 13). As at December 31, 2016 and June 30, 2017, both the Loan and Second loan balances were Nil.

#### 24.2 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:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Directors’ fees <sup>1</sup>	\$ 218	\$ 166	\$ 390	\$ 341
Salaries and allowances	663	482	2,072	1,620
Share-based compensation	1,049	21	1,968	100
	\$ 1,930	\$ 669	\$ 4,430	\$ 2,061

1. For the period ended June 30, 2017, this number reflects accrued fees of \$0.2 million (2016 – \$0.2 million). Refer to the appendix A2 for additional director fees disclosure.

### 25. Operating lease arrangements

#### Payments recognised as an expense

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Minimum lease payments	\$ 564	\$ 504	\$ 1,174	\$ 1,040



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 26. Commitments and contingencies

As at June 30, 2017, the Company's commitments are as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Repayment of debt <sup>1</sup>	\$ 257,806	257,806	-	-	-	-	-
Interest payments on debt <sup>2</sup>	16,091	16,091	-	-	-	-	-
Redemption premium <sup>3</sup>	18,941	18,941	-	-	-	-	-
Unsecured debt <sup>4</sup>	1,663	-	1,663	-	-	-	-
Drilling, other equipment and contracts	2,706	2,623	83	-	-	-	-
Lease rentals <sup>5</sup>	8,647	814	1,402	1,414	1,414	1,414	2,189
Office leases	4,637	1,412	2,580	645	-	-	-
	\$ 310,491	297,687	5,728	2,059	1,414	1,414	2,189

1. Principal amount of Notes based on the period end exchange rate of \$1US = \$1.2977 CAD 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 = \$1.2977 CAD.
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 = \$1.2977 CAD this premium amounts to \$18,941. At June 30, 2017, the Company had the option to redeem the Notes at 5.952% of the aggregate principal amount of the Notes outstanding which amounts to \$15,963 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. Principal of unsecured debt and its interest (3% on principal amount of the debt) based on the period exchange rate of \$1 HKD = \$0.1332 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 period ended June 30, 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.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

27. Supplemental cash flow disclosures

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Cash provided by (used in):</b>				
Trade and other receivables	\$ (3)	\$ 177	\$ (1,973)	\$ 835
Prepaid expenses and deposits	(297)	589	2,498	1,767
Trade and other payables	7,304	8,022	14,874	6,485
	\$ 7,004	\$ 8,788	\$ 15,399	\$ 9,087
<b>Changes in non-cash working capital relating to:</b>				
<i>Operating activities</i>				
Trade and other receivables	\$ (80)	\$ (46)	\$ (2,076)	\$ 70
Prepaid expenses and deposits	(297)	589	2,498	1,767
Trade and other payables	2,039	4,489	15,500	1,596
	\$ 1,662	\$ 5,032	\$ 15,922	\$ 3,433
<i>Investing activities</i>				
Exploration and evaluation	\$ –	\$ –	\$ –	\$ –
Property, plant and equipment	(3,782)	(4,089)	(14,263)	4,564
	\$ (3,782)	\$ (4,089)	\$ (14,263)	\$ 4,564
<i>Financing activities</i>				
Share issue costs and finance costs	\$ 9,124	\$ 7,845	\$ 13,740	\$ 1,090
	\$ 7,004	\$ 8,788	\$ 15,399	\$ 9,087

28. Subsequent events

On June 5, 2017, the Company entered into a Subscription Agreement with Prime Union at the issue price of HKD \$0.234 per Common Shares (approximately CAD \$0.041 per Common Share) for an aggregate cash consideration of HK \$106.5 million (approximately CAD \$18.5 million). Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company. The subscription would be issued pursuant to the Special mandate to be sought from the Independent Shareholders at Special General Meeting (“SGM”). On August 4, SGM was held in Sunshine Hong Kong office, and the subscription agreement was dully passed as an ordinary resolution.

On July 28, 2017, the Company updated the status of the Agreement according to FRA and NEA. The Company is required to, amongst other matters, repay notes principal, and any previous outstanding payment commitments on August 1, 2017. As at August 14, 2017, the Company is still in negotiation with the noteholders in relation to the repayment commitment.

29. Approval of interim consolidated financial statements

The Condensed Interim Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on August 14, 2017.



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 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.

	June 30, 2017		December 31, 2016
<i>Non-current assets</i>			
Property, plant and equipment	\$ 686,323	\$	684,410
Exploration and evaluation assets	293,281		291,716
Amounts due from subsidiary	7,244		4,657
	986,848		980,783
<i>Current assets</i>			
Trade and other receivables	4,627		2,654
Prepaid expenses and deposits	2,556		4,956
Cash	2,496		13,066
Restricted cash and cash equivalents	–		–
	9,679		20,676
<i>Current liabilities</i>			
Trade and other payables	85,746		71,509
Provisions	–		581
Share purchase warrants	–		–
Amount due to subsidiary	2,634		2,611
Bond	259,469		268,540
	347,849		343,241
Net current assets (liabilities)	(338,170)		(322,565)
Total assets less current liabilities	648,678		658,218
<i>Non-current liabilities</i>			
Provisions	52,661		49,488
Net assets	\$ 596,017	\$	608,730
<i>Capital and reserves</i>			
Share capital	\$ 1,272,090	\$	1,247,302
Reserve for share-based compensation	69,487		67,262
Deficit	(745,560)		(705,834)
	\$ 596,017	\$	608,730



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>Directors' emoluments</i>				
Directors' fees	\$ 218	\$ 166	\$ 390	\$ 341
Salaries and allowances	764	402	2,072	1,455
Share-based payments	1,068	13	1,968	85
	<hr/> 2,050	<hr/> 581	<hr/> 4,430	<hr/> 1,881
<i>Other staff costs</i>				
Salaries and other benefits	803	1,631	1,826	2,955
Contribution to retirement benefit scheme	25	35	140	193
Share-based payments	161	(290)	257	(110)
	<hr/> 989	<hr/> 1,376	<hr/> 2,223	<hr/> 3,038
Total staff costs, including directors' emoluments	<hr/> 3,039	<hr/> 1,957	<hr/> 6,653	<hr/> 4,919
Less: staff costs capitalized to qualifying assets	–	667	249	1,534
	<hr/> \$ 3,039	<hr/> \$ 1,290	<hr/> \$ 6,404	<hr/> \$ 3,385



**SUNSHINE OILSANDS LTD.**

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS:**

#### ***Executive Directors:***

Mr. Kwok Ping Sun (*Chairman*)  
Mr. Hong Luo  
Mr. Qiping Men  
Ms. Gloria Pui Yun Ho

#### ***Non-Executive Directors:***

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

#### ***Independent Non-Executive Directors:***

Mr. Raymond Shengti Fong  
Mr. Jeff Jingfeng Liu  
Mr. Yi He  
Mr. Joanne Yan

### **AUTHORIZED REPRESENTATIVES:**

Mr. Qiping Men  
Ms. Man Ngan Chow

### **AUDITORS:**

Deloitte LLP

### **LEGAL ADVISERS:**

Dentons Canada LLP  
Herbert Smith Freehills

### **COMPETENT PERSONS:**

DeGolyer and MacNaughton Canada Limited  
GLJ Petroleum Consultants Limited

### **PRINCIPAL BANKERS:**

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

### **PLACE OF SHARE LISTING AND STOCK CODE:**

The Stock Exchange of Hong Kong Limited: 2012

### **WEBSITE:**

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

### **AUDIT COMMITTEE:**

Ms. Joanne Yan (*Chairlady*)  
Mr. Raymond Shengti Fong  
Mr. Yi He  
Mr. Jeff Jingfeng Liu

### **COMPENSATION COMMITTEE:**

Mr. Kwok Ping Sun (*Chairman*)  
Mr. Raymond Shengti Fong  
Ms. Joanne Yan  
Mr. Xijuan Jiang

### **RESERVES COMMITTEE:**

Mr. Qiping Men (*Chairman*)  
Mr. Raymond Shengti Fong  
Mr. Jeff Jingfeng Liu

### **CORPORATE GOVERNANCE COMMITTEE:**

Mr. Kwok Ping Sun (*Chairman*)  
Mr. Michael John Hibberd  
Mr. Raymond Shengti Fong  
Ms. Joanne Yan  
Mr. Yi He

### **CORPORATE HEADQUARTERS:**

Suite 1020, 903 Eighth Avenue SW  
Calgary, Alberta  
T2P 0P7 Canada

### **REGISTERED OFFICE IN ALBERTA:**

Suite 4000, 421 Seventh Avenue SW  
Calgary, Alberta  
T2P 4K9 Canada

### **PRINCIPAL PLACE OF BUSINESS IN HONG KONG:**

8504A, 85/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

### **SHARE REGISTRAR IN ALBERTA:**

Alliance Trust Company

### **SHARE REGISTRAR IN HONG KONG:**

Computershare Hong Kong Investor Services Limited