



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine month periods ended September 30, 2015**

**(Unaudited)**



**Consolidated Statements of Financial Position**

(Expressed in thousands of Canadian dollars)  
(Unaudited)

		September 30, 2015	December 31, 2014
<b>Assets</b>	<b>Notes</b>		
<i>Current assets</i>			
Cash	4	\$ 21,870	\$ 136,097
Restricted cash and cash equivalents	4	13,925	23,467
Trade and other receivables	5	2,002	1,913
Prepaid expenses and deposits	6	7,701	5,843
		45,498	167,320
<i>Non-current assets</i>			
Restricted cash and cash equivalents	4	-	11,601
Exploration and evaluation	7	380,784	379,403
Property, plant and equipment	8	827,243	701,736
		1,208,027	1,092,740
		\$ 1,253,525	\$ 1,260,060
<b>Liabilities and Shareholders' Equity</b>			
<i>Current liabilities</i>			
Trade and accrued liabilities	9	\$ 24,700	\$ 28,128
Provisions	11	7,163	834
Share purchase warrants	13.2	133	109
Current portion of long-term debt	10	253,693	-
		285,689	29,071
<i>Non-current liabilities</i>			
Long-term debt	10	-	210,050
Provisions	11	50,726	48,650
Share purchase warrants	13.2	-	273
		336,415	288,044
<b>Shareholders' Equity</b>			
Share capital	13	1,162,607	1,139,022
Reserve for share-based compensation		62,541	60,658
Deficit		(308,038)	(227,664)
		917,110	972,016
		\$ 1,253,525	\$ 1,260,060

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

Approved by the Board

"Robert J. Herdman"  
Director

"Kwok Ping Sun"  
Executive Chairman

See accompanying notes to the condensed interim consolidated financial statements.

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

	Notes	For the three months ended September 30,		For the nine months ended, September 30,	
		2015	2014	2015	2014
<i>Other income</i>					
Interest income		\$ 36	\$ 275	\$ 446	\$ 347
Gain on sale of assets	7, 8	-	13,265	174	13,265
Fair value adjustment on share purchase warrants (losses)/gains	13.2	987	(3,397)	249	3,179
		1,023	10,143	869	16,791
<i>Expenses</i>					
Salaries, consulting and benefits		3,128	2,008	8,065	5,301
Rent		381	311	1,072	933
Legal and audit		803	183	1,752	2,243
Depreciation	8	157	192	434	540
Share-based payments	14.6	322	976	1,276	1,821
Suspension and preservation costs	8	-	1,222	-	5,192
Finance costs	15	10,641	2,031	29,686	7,181
Foreign exchange losses	17.6	14,950	3,678	28,307	4,099
Contract provision expense	11.2	-	-	6,600	-
Other		1,054	880	4,051	3,968
		\$ 31,436	\$ 11,481	\$ 81,243	\$ 31,278
Loss before income taxes		30,413	1,338	80,374	14,487
Income taxes	12	-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company		\$ 30,413	\$ 1,338	\$ 80,374	\$ 14,487
Basic and diluted loss per share	16	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.00

See accompanying notes to the condensed interim consolidated financial statements.



**Consolidated Statements of Changes in Shareholders' Equity**

*(Expressed in thousands of Canadian dollars)*

*(Unaudited)*

	Notes	Reserve for share based compensation	Share capital	Deficit	Total
Balance, December 31, 2014		\$ 60,658	\$ 1,139,022	\$ (227,664)	\$ 972,016
Net loss and comprehensive loss for the period		-	-	(80,374)	(80,374)
Issue of common shares	13.1	-	22,726	-	22,726
Issue of shares under employee share savings plan	13.1	-	711	-	711
Recognition of share-based payments	14.6	1,938	-	-	1,938
Issue of shares upon exercise of share options	13.1	-	108	-	108
Reserve transferred on exercise of share options	13.1	(55)	55	-	-
Share issue costs, net of deferred tax (\$Nil)	13.1	-	(15)	-	(15)
<b>Balance, September 30, 2015</b>		<b>\$ 62,541</b>	<b>\$ 1,162,607</b>	<b>\$ (308,038)</b>	<b>\$ 917,110</b>
Balance, December 31, 2013		\$ 57,447	\$ 1,024,423	\$ (200,897)	\$ 880,973
Net loss and comprehensive loss for the period		-	-	(14,487)	(14,487)
Issue of common shares		-	114,372	-	114,372
Issue of shares under employee share savings plan		-	596	-	596
Issue of shares under director share arrangement		-	226	-	226
Recognition of share-based payments		2,232	-	-	2,232
Share issue costs, net of deferred tax (\$Nil)		-	(869)	-	(869)
<b>Balance, September 30, 2014</b>		<b>\$ 59,679</b>	<b>\$ 1,138,748</b>	<b>\$ (215,384)</b>	<b>\$ 983,043</b>

See accompanying notes to the condensed interim consolidated financial statements.



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

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2015	2014	2015	2014
<i>Cash flows from operating activities</i>					
Net loss		\$ (30,413)	\$ (1,338)	\$ (80,374)	\$ (14,487)
Finance costs		10,641	2,031	29,686	7,181
Unrealized foreign exchange losses	17.6	14,374	3,602	26,541	3,938
Contract provision expense	11.2	-	-	6,600	-
Interest income		(36)	(275)	(446)	(347)
Gain on sale of assets	7, 8	-	(13,265)	(174)	(13,265)
Fair value adjustment on share purchase warrants	13.2	(987)	3,397	(249)	(3,179)
Depreciation		157	192	434	540
Share-based payment expense		322	976	1,276	1,821
Employee share savings plan	14.2	89	97	356	298
		(5,853)	(4,583)	(16,350)	(17,500)
Movement in non-cash working capital	21	(1,138)	(2,459)	(2)	(12,284)
<b>Net cash used in operating activities</b>		<b>(6,991)</b>	<b>(7,042)</b>	<b>(16,352)</b>	<b>(29,784)</b>
<i>Cash flows from investing activities</i>					
Interest received		36	275	446	347
Payments for exploration and evaluation assets	21	(592)	(585)	(1,231)	(3,799)
Payments for property, plant and equipment	21	(30,508)	(31,402)	(125,309)	(114,901)
Movement in restricted cash	4	11,509	(35,202)	21,143	(35,202)
<b>Net cash used in investing activities</b>		<b>(19,555)</b>	<b>(66,914)</b>	<b>(104,951)</b>	<b>(153,555)</b>
<i>Cash flows from financing activities</i>					
Proceeds from issue of common shares	13.1	22,882	95	23,190	119,421
Proceeds from sale of assets	7, 8	-	20,000	447	20,000
Proceeds from long term debt	10	-	194,413	-	194,413
Payment for share issue costs and finance costs	21	(12,527)	(3,203)	(23,697)	(4,055)
<b>Net cash provided in financing activities</b>		<b>10,355</b>	<b>211,305</b>	<b>(60)</b>	<b>329,779</b>
Effect of exchange rate changes on cash held in foreign currency	17.6	2,882	2,293	7,136	1,784
Net (decrease) / increase in cash		(13,309)	139,642	(114,227)	148,224
Cash, beginning of period		35,179	24,436	136,097	15,854
<b>Cash, end of period</b>		<b>\$ 21,870</b>	<b>\$ 164,078</b>	<b>\$ 21,870</b>	<b>\$ 164,078</b>

See accompanying notes to the condensed interim consolidated financial statements.



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

For the three and nine month periods ended September 30, 2015

*(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.

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 September 30, 2015, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

The Company is engaged in the evaluation and the development of oil properties for the future production of bitumen in the Athabasca oilsands region in Alberta, Canada. The Company is a development stage company. The continued existence of the Company is dependent on its ability to maintain capital funding for further development and to meet obligations. In the event that such capital is not available to the Company, it will be necessary to prioritize activities, which may result in delaying and potentially losing business opportunities and cause potential impairment to recorded assets. The Company anticipates incurring substantial expenditures to further its capital development programs.

### **2. Basis of preparation**

#### ***Going Concern***

These condensed interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the nine month period ended September 30, 2015, the Company reported a net loss of \$80.4 million. At September 30, 2015, the Company had negative working capital of \$240.2 million including the \$253.7 million current portion of the senior secured notes (see Note 10) and an accumulated shareholder’s deficit of \$308.0 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 restructure current debt and access additional financing. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

These condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the annual Consolidated Financial Statements for the year ended December 31, 2014.

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements as at and for the year ended December 31, 2014.

#### **2.1 Statement of compliance**

The condensed interim consolidated 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 interim consolidated



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

financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 17). The condensed interim consolidated financial statements are presented in Canadian Dollars (“\$”), which is the functional currency of the Company.

## **3. New accounting pronouncements and changes in accounting policies**

### ***3.1 Future accounting changes***

In May 2014, the IASB published IFRS 15, “Revenue from Contracts with Customers” replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

The IASB issued a number of new and revised IAS, IFRS, amendments and related Interpretations (“IFRIC”) (hereinafter collectively referred to as the “New IFRS”) which are effective for the Company’s financial period beginning on January 1, 2018. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and these standards are not expected to have a material impact on its condensed interim consolidated financial statements.

The IASB has undertaken a three-phase project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with IFRS 9 “Financial Instruments”. In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 “Financial Instruments” which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company is currently assessing and quantifying the effect on its financial statements.

### ***3.2 Changes in accounting policies***

For the nine month period ended September 30, 2015 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, 2014.



**4. Cash and cash equivalents**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
<i>Current asset</i>				
Cash <sup>1</sup>	\$	21,870	\$	136,097
Current restricted cash and cash equivalents <sup>2</sup>		13,925		23,467
		35,795		159,564
<i>Non-current asset</i>				
Non-current restricted cash and cash equivalents <sup>2</sup>		-		11,601
	\$	35,795	\$	171,165

1. The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates of between 0.01% and 1.30%.
2. The US\$200 million senior secured notes issued in August 2014 required US\$30 million of proceeds to be held in a restricted escrow account to cover the first three interest payments on the notes. There is one interest payment remaining of US\$10 million, due on February 1, 2016. The Company's restricted cash for interest payments consists of cash held in a treasury note.

**5. Trade and other receivables**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Trade	\$	1,201	\$	1,035
Accruals and other receivables		44		22
Goods and Services Taxes receivable		757		856
	\$	2,002	\$	1,913

As at September 30, 2015, included in the Company's trade receivables was an aggregate carrying amount of \$1.0 million (December 31, 2014 - \$1.0 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances. Management believes the past due amounts will be collected.

**6. Prepaid expenses and deposits**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Prepaid expenses	\$	412	\$	132
Deposits		7,289		5,711
	\$	7,701	\$	5,843

As at September 30, 2015, the deposits include \$4.8 million held with the Alberta Energy Regulator for the License Liability Rating Program. The deposits also include a one year Irrevocable Standby Letter of Credit ("Letter") of \$1.6 million which was issued on July 31, 2015. The Letter will mature on July 31, 2016.

**7. Exploration and evaluation**

<b>Balance, December 31, 2013</b>	\$	376,912
Capital expenditures		5,232
Non-cash expenditures <sup>1</sup>		4,025
Disposal		(6,766)
<b>Balance, December 31, 2014</b>	\$	379,403
Capital expenditures		1,231
Non-cash expenditures <sup>1</sup>		150
<b>Balance, September 30, 2015</b>	\$	380,784

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

The Company is a development stage entity and, as a result, no depletion expense has been recorded for exploration and evaluation assets for any period. During the three and nine month periods ended September 30, 2015, the Company capitalized directly attributable costs/(recovery) including \$ Nil for share-based payment expense (three and nine month periods ended September 30, 2014 – \$0.1 and \$(0.1) million) and \$Nil of general and administrative costs (three and nine month periods ended September 30, 2014 - \$0.1 million and \$2.4 million).

On July 17, 2014, the Company entered into a petroleum, natural gas and general conveyance agreement for the 100% sale of the Pelican Lake asset, which relates to, among other things, lands and petroleum and natural gas rights, to a third party for total consideration of \$20.0 million. Total carrying value of the asset of \$6.8 million was removed from the





**7. Exploration and evaluation (continued)**

Company's exploration and evaluation account resulting in a \$13.3 million gain on the sale of the asset for the year ended December 31, 2014. The asset had a provision for decommissioning obligation of \$41,900 which was removed from the Company's future Asset Retirement Obligation cost account.

Exploration and evaluation costs are comprised of the following:

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Intangibles	\$	272,299	\$	272,469
Tangibles		18,683		18,682
Land and lease costs		89,802		88,252
	\$	<u>380,784</u>	\$	<u>379,403</u>

**8. Property, plant and equipment**

	<b>Crude oil assets</b>		<b>Corporate assets</b>		<b>Total</b>
<i>Cost</i>					
<b>Balance, December 31, 2013</b>	\$	632,249	\$	3,685	\$ 635,934
Capital expenditures		46,491		63	46,554
Non-cash expenditures <sup>1</sup>		21,208		-	21,208
<b>Balance, December 31, 2014</b>	\$	699,948	\$	3,748	\$ 703,696
Capital expenditures		123,622		1,066	124,688
Disposal of asset		-		(446)	(446)
Non-cash expenditures <sup>1</sup>		1,526		-	1,526
<b>Balance, September 30, 2015</b>	\$	<u>825,096</u>	\$	<u>4,368</u>	\$ 829,464

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

	<b>Crude oil assets</b>		<b>Corporate assets</b>		<b>Total</b>
<b>Accumulated depreciation</b>					
<b>Balance, December 31, 2013</b>	\$	-	\$	1,262	\$ 1,262
Depreciation expense		-		698	698
<b>Balance, December 31, 2014</b>	\$	-	\$	1,960	\$ 1,960
Disposal of asset		-		(173)	(173)
Depreciation expense		-		434	434
<b>Balance, September 30, 2015</b>	\$	-	\$	<u>2,221</u>	\$ 2,221
<b>Carrying value, September 30, 2015</b>	\$	825,096	\$	2,147	\$ 827,243
<b>Carrying value, December 31, 2014</b>	\$	699,948	\$	1,788	\$ 701,736

At September 30, 2015, the crude oil assets included in the above property, plant and equipment were not subject to depletion since they are not ready for use in the manner intended by management. As of September 30, 2015, no impairment has been recognized on these assets.

During the three and nine month periods ended September 30, 2015, the Company capitalized directly attributable costs including \$Nil million and \$0.6 million for share-based payment expense (three and nine month periods ended September 30, 2014 - \$0.7 million and \$0.8 million), and \$1.6 million and \$4.9 million for general and administrative costs (three and nine month periods ended September 30, 2014 – \$2.0 million and \$3.4 million) respectively.

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



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

Costs directly related to the suspension, which totaled \$Nil for the nine month period ended September 30, 2015 (nine month period ended September 30, 2014 - \$5.2 million), are recognized as suspension and preservation costs in the Consolidated Statements of Operations and Comprehensive Loss. After completion of transactions during July and August 2014, the suspension was lifted and construction of the West Ells SAGD project recommenced.

**9. Trade and accrued liabilities**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Trade	\$	10,004	\$	4,021
Accrued liabilities		14,696		24,107
	\$	24,700	\$	28,128

**10. Long-term debt**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Senior secured notes (US\$200,000,000)	\$	267,880	\$	232,020
Discount on notes		(16,606)		(14,383)
Financing transaction costs on notes		(11,846)		(11,846)
Amortization of financing transaction costs and discount		14,265		4,259
Balance, end of period	\$	253,693	\$	210,050

On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the “Notes”) at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a potential maturity date of August 1, 2017, if certain conditions are met.

If by February 1, 2016, the Company has not: (1) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield maintenance premium, then the final maturity date of the notes shall be August 1, 2016. The Company is required to pay to the holders of any Notes outstanding on August 1, 2016 a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. If the Notes are outstanding at August 1, 2017, there will be an exit premium paid of 7.298% on the aggregate principal amount of the Notes outstanding.

The Notes are senior secured obligations over the Company’s assets. Transaction costs in relation to the issuance of the Notes were \$11.9 million. Transaction costs are capitalized against the long term debt and amortized using the effective interest rate method. The effective annualized interest rate for the nine month period ended September 30, 2015, was 16.9% which includes interest and amortization of the applicable financing costs and discount. The Notes are redeemable by the Company at any time prior to maturity. Prior to August 1, 2015, Notes are redeemable at par plus applicable premium payment calculated to August 1, 2015. Thereafter, the Notes are redeemable subject to the payment of principal amount plus the applicable call premiums to the holders of the Notes ranging from zero to 7%. Upon change of control of the Company, the Notes require the Company to make an offer of repayment in cash equal to 101% of the aggregate principal amount of the Notes outstanding plus the applicable accrued and unpaid interest. No value was ascribed to the repayment option as the fair value of this option was not significant at the date of issue and as at September 30, 2015.

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires standard reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes. The Company is in compliance with all covenants under the Notes as at September 30, 2015.



**10. Long-term debt (continued)**

As at September 30, 2015, US\$10 million of proceeds from the Notes are held in a separate escrow account with a trustee. These funds are restricted to cover the payments for the third interest payment. Interest payments are payable semi-annually on February 1 and August 1 of each year.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1 US = 1.3394CDN

**11. Provisions**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Decommissioning obligations (Note 11.1)	\$	51,289	\$	49,484
Contract provision (Note 11.2)		6,600		-
	\$	57,889	\$	49,484
Presented as:				
Provisions (current)	\$	7,163	\$	834
Provisions (non-current)	\$	50,726	\$	48,650

**11.1 Decommissioning obligations**

As at September 30, 2015, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$81.7 million (December 31, 2014 - \$83.3 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate between 0.52% to 2.09% per annum and inflated using an inflation rate of 2.0% per annum.

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Balance, beginning of period	\$	49,484	\$	24,469
Additional provision recognized		-		3
Disposal of Asset (Note 7)		-		(42)
Effect of changes in discount rate		1,014		24,293
Unwinding of discount rate		791		761
	\$	51,289	\$	49,484
Current portion		(863)		(834)
Balance, end of period	\$	50,426	\$	48,650

**11.2 Contract provision**

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

As at September 30, 2015, the drilling rig was not utilized, \$6.3 million of the provision has been presented as current and \$0.3 million has been presented as non-current.



**12. Income taxes**

**12.1 Deferred tax balances**

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

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	\$	(166,232)	\$	(137,644)
Decommissioning liabilities		13,848		12,371
Share issue costs		8,169		10,159
Non-capital losses		179,641		130,061
Deferred tax benefits not recognized		(35,426)		(14,947)
	\$	-	\$	-

**12.2 Tax pools**

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

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Canadian development expense	\$	38,545	\$	39,455
Canadian exploration expense		230,893		214,890
Undepreciated capital cost		322,915		276,217
Non-capital losses		665,335		520,247
Share issue costs		30,257		40,638
	\$	1,287,945	\$	1,091,447

The Company's non-capital losses of \$665,335 (December 31, 2014 - \$520,247), expire between 2028 and 2034.

**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**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Common shares	\$	1,162,607	\$	1,139,022



**13.1 Common shares**

	September 30, 2015		December 31, 2014	
	Number of shares	\$	Number of shares	\$
Balance, beginning of period	3,896,103,191	1,139,022	3,067,167,791	1,024,423
Private placement	211,214,210	22,726	821,242,193	119,123
Issue of shares under employee share savings plan (Note 14.2)	6,834,537	711	5,772,789	835
Director share arrangement (Note 14.3)	-	-	1,920,418	261
Reclassification of share purchase warrants (Note 13.2)	-	-	-	(4,751)
Issue of shares under share option plan (Note 14.5)	1,075,166	108	-	-
Share option reserve transferred on exercise of stock options	-	55	-	-
Share issue costs, net of deferred tax (\$Nil)	-	(15)	-	(869)
Balance, end of period	4,115,227,104	1,162,607	3,896,103,191	1,139,022

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

During the nine month period ended September 30, 2015, the Company issued 111,214,210 Class “A” common shares in a private placement at a price of HK\$0.75 per share (approximately \$0.13 per share) for gross proceeds of HK\$83.4 million or approximately CDN\$14.1 million. This was a partial closing (the “Partial Closing”) of the subscription shares which were to be issued pursuant to the specific mandate approved by independent shareholders at a special general meeting of shareholders (the “SGM”) held on July 20, 2015. Refer to *Private placements under specific mandate*.

The Company also issued 100,000,000, Class “A” common shares in a private placement under the general mandate at a price of HK\$0.50 per share (approximately \$0.09 per share) for gross proceeds of HK\$50 million or approximately CDN\$8.6 million. Refer to *Private placement under general mandate*.

*Private placements under specific mandate*

On May 31, 2015, the Company entered into subscription agreements which were approved by independent shareholders at the SGM held on July 20, 2015. An aggregate of 524,734,210 subscription shares at the price of HK\$0.75 (approximately CDN\$0.12 on May 31, 2015), for aggregate cash consideration of HK\$393,550,658 (approximately CDN\$ 63.3 million on May 31, 2015).

On July 27, 2015, the Company entered into subscription amending agreements with subscribers to extend the closing schedule of subscription shares. Pursuant to the terms of the subscription amending agreements, the first closing was to be completed on August 20, 2015 for an aggregate of 111,214,210 shares (approximately CDN\$ 13.4 million on July 27, 2015). The remaining 413,520,000 shares (HK\$ 310,140,000 or approximately CDN\$ 52.1 million on July 27, 2015) was to be closed in one or more tranches after August 20, 2015, with the last tranche closing no later than September 30, 2015.

On August 20, 2015, the Company completed the closing of 111,214,210 subscription shares authorized under the specific mandate. Upon the Partial Closing, the Corporation received total gross proceeds of HK\$ 83,410,658 (approximately CDN\$ 14.1 million on August 20, 2015) for the allotment and issue of 111,214,210 subscription shares at a subscription price of HK\$0.75 (approximately CDN\$ 0.13) per share. The remaining 413,520,000 shares (HK\$ 310,140,000 or approximately CDN\$ 52.3 million on August 20, 2015) were to be closed in one or more tranches with the last tranche closing no later than September 30, 2015.

On September 30, 2015, the Board of Directors consented to a further extension of the closing date for the remaining 413,520,000 shares (HK\$ 310,140,000 or approximately CDN \$53.5 million on September 30, 2015) subscribed to November 2, 2015, from September 30, 2015. The remaining subscribed shares can be closed in one or more tranches with the last tranche closing no later than December 2, 2015.



### **13. Share capital (continued)**

The remaining 413,520,000 shares were subscribed by Prime Union Enterprises Limited ("Prime Union"). Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

#### *Private placements under general mandate*

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

On September 20, 2015, the Company entered into subscription agreement for a total of 100,000,000 class "A" common shares at a price of HK\$ 0.50 per share (approximately CDN\$ 0.08 per share on September 20, 2015) which in the aggregate amounts to gross proceeds of HK\$ 50,000,000 (approximately CDN\$ 8.5 million on September 20, 2015).

On September 30, 2015, the Company completed the closing of 100,000,000 Shares at a price of HK \$0.50 per share (approximately CDN \$0.09 per share), for gross proceeds of HK \$50 million (approximately CDN \$8.6 million on September 30, 2015).

During the nine month period ended September 30, 2015, the Company issued 6,834,537 Class "A" common shares, from the Company's employee share savings plan for gross proceeds of \$0.7 million.

During the nine month period ended September 30, 2015 there were no share repurchases (September 30, 2014 - \$Nil).

During the year ended December 31, 2014, the Company issued 640,000,000 Class "A" common shares in private placements at a price of HK\$0.85 per share (approximately \$0.12 per share) for gross proceeds of HK\$544.0 million or approximately \$75.4 million.

During the year ended December 31, 2014, the Company completed closings of equity private placements, totaling 181,242,193 Units at a price of HK\$1.70 per Unit (approximately \$0.24 per Unit) for gross proceeds of HK\$308.1 or approximately \$43.8 million. Each Unit is comprised of one Class "A" common share and one-third of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of HK\$1.88 per common share (approximately \$0.28 per common share) for a period of 24 months following the closing date. These warrants were valued at an average of \$0.04 per warrant for a total of \$2.2 million. As part of a finders' fee, the Company issued two-fifths of a warrant for each purchased Unit. These finders' fee warrants were valued at \$0.04 per warrant for a total of \$2.6 million. Total value of warrants granted during the year ended December 31, 2014, was \$4.8 million (refer Note 13.2). The ascribed values of the warrants were determined using the Black-Scholes fair value pricing model based on a risk free rate of 0.98-1.05%, expected volatility of 43.01% and an expected life of two years.

The total cost to complete the private placements was \$0.9 million which includes a 3% finders' fee of HK\$4.6 million (approximately \$0.7 million) to the finder of 90,588,235 Units.

As the exercise price of the share purchase warrants is fixed in Hong Kong dollars and the functional currency of the Company is in the Canadian dollar, the warrants are considered a derivative, as a variable amount of cash in the Company's functional currency will be received on exercise. The fair value of share purchase warrants is reclassified to equity upon exercise. The share purchase warrants are re-measured at fair value at each statement of financial position date with the change in fair value recorded in the consolidated statements of operations and comprehensive loss. For the nine month period ended September 30, 2015, the Company recognized a gain of \$0.99 million related to the re-measurement of the fair value of share purchase warrants in the consolidated statements of operations and comprehensive loss (refer Note 13.2).



**13.2 Share purchase warrants**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance, beginning of period	211,230,941	0.28	78,320,000	0.26
Issued under private placement	-		132,910,941	0.27
Balance, end of period	<u>211,230,941</u>	0.32	<u>211,230,941</u>	0.28
Exercisable, end of period	211,230,941	0.32	211,230,941	0.28

As at September 30, 2015, the share purchase warrants outstanding had a weighted average remaining contractual life of 0.31 years (December 31, 2014 – 1.04 years).

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

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Balance, beginning of period	\$	382	\$	3,832
Issued under private placement		-		4,751
Fair value adjustment		(249)		(8,201)
Balance, end of period	\$	133	\$	382

**14. Share-based payments**

**14.1 Employee stock option plan**

*Post-IPO Stock Option Plan*

On January 26, 2012, the Post-IPO Stock Option Plan was approved and adopted by shareholders at the Company's Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Company's IPO closing and listing on the SEHK, March 1, 2012. The maximum number of Class "A" common shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the options already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the Annual and Special Meeting of Shareholders on June 13, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan have an exercise price that is determined by the Board of Directors but is not less than the higher of: the closing price on the Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the shares on Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the shares on the Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) for the five trading days immediately preceding the option offer date.

**14.2 Employee share savings plan**

The Company's Board of Directors and shareholders approved the establishment of an employee share savings plan ("ESSP") on May 7, 2013. The maximum number of Class "A" common shares that may be reserved for issuance pursuant to the ESSP is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the ESSP and the shares issuable on the exercise of options granted under the Post IPO Share Option Plan and the Pre IPO Plan. Under the terms of the ESSP, the Company matched 100% of a participating employee's contributions to the ESSP up to a set maximum. Contributions made by the Company and employees were used to purchase Company shares. Compensation expense is recognized based on the fair value of the award on the ESSP contribution date. The ESSP was discontinued by the Company on August 31, 2015.





**14.3 Director Share Arrangements**

At the Annual and Special Meeting of Shareholders of the Company held on June 25, 2014, shareholders approved the option of payment of 50% of the directors' base retainer fees to the directors in shares in lieu of cash in respect of the period from October 1, 2013 to June 25, 2014 and future base retainer fees. Shareholders also approved the option of payment of 50% of the base fees payable to the then co-chairmen in shares in lieu of cash in respect of the period from April 1, 2014 to June 25, 2014 and in relation to future base co-chairman fees.

Upon approval, at the discretion of the Board, the option of payment of shares in lieu of cash results in an expense to share based payments and reversal of directors and/or employment or consulting fees as applicable. For the nine month period ended September 30, 2015, no shares were issued in lieu of cash. The Director Share Compensation Arrangement expired on June 23, 2015 and was not renewed.

**14.4 Fair value of share options granted in the period**

The weighted average fair value of the share options granted for the nine month period ended September 30, 2015 was \$0.07 (year ended December 31, 2014 - \$0.06). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2015 and 2014. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 11.01 to 11.51%.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted in the period for share-based compensation:

<b>Input Variables</b>	<b>Nine months ended September 30, 2015</b>	<b>Year ended December 31, 2014</b>
Grant date share price (\$)	0.10-0.14	0.09-0.135
Exercise Price (\$)	0.10-0.14	0.09-0.135
Expected volatility (%)	67.01-73.99	64.84-65.84
Option life (years)	4.10-4.11	4.1
Dividend yield (%)	-	-
Risk-free interest rate (%)	0.68-0.90	1.21-1.40
Expected forfeitures (%)	11.01-11.51	11.04-11.13

**14.5 Movements in stock options during the period**

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

	<b>Three months ended September 30, 2015</b>		<b>Nine months ended September 30, 2015</b>		<b>Year Ended December 31, 2014</b>	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance, beginning of period	117,308,493	0.29	135,727,289	0.30	135,145,593	0.43
Granted	-	-	9,065,387	0.12	70,619,940	0.13
Exercised	(686,833)	0.10	(1,075,166)	0.10	-	-
Forfeited	(14,400,069)	0.21	(41,495,919)	0.24	(70,038,244)	0.37
Balance, end of period	102,221,591	0.31	102,221,591	0.31	135,727,289	0.30
Exercisable, end of period	67,580,723	0.35	67,580,723	0.35	81,378,764	0.36





**14. Share-based payments (continued)**

As at September 30, 2015, stock options outstanding had a weighted average remaining contractual life of 3.2 years (December 31, 2014 – 3.3 years).

The Company granted Nil and 9,065,387 stock options during the three and nine month periods ended September 30, 2015, respectively. The stock options were granted to certain officers and employees. No substantial shareholder, chief executive or associate of any of those parties were granted options.

**14.6 Share-based compensation**

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

	Three months ended September 30, 2015			Three months ended September 30, 2014		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ 322	\$ 27	\$ 349	\$ 976	\$ 778	\$ 1,754

	Nine months ended September 30, 2015			Nine months ended September 30, 2014		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ 1,276	\$ 662	\$ 1,938	\$ 1,821	\$ 635	\$ 2,456

**15. Finance costs**

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest expense on senior notes	\$ 6,547	\$ 3,231	\$ 18,899	\$ 3,231
Amortization of financing transaction costs and discount	3,781	1,648	10,006	1,648
Financing related costs/(recovery)	34	130	(11)	1,720
Other interest expense <sup>1</sup>	1	(3,178)	1	22
Unwinding of discounts on provisions	278	200	791	560
	<u>\$ 10,641</u>	<u>\$ 2,031</u>	<u>\$ 29,686</u>	<u>\$ 7,181</u>

1. For the three months period ended September 30, 2014, this number represented interest on contractor overdue accounts.

**16. Loss per share**

The weighted average number for basic Class “A” common shares for the periods presented is in the following table. Other than Class “A” common shares, all equity instruments have been excluded in calculating the diluted loss per share as they were anti-dilutive, considering the Company was in a loss position for the periods presented.

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Basic and Diluted – Class “A” common shares	3,952,611,155	3,891,482,299	3,916,769,065	3,457,867,603

**17. Financial instruments**

**17.1 Capital risk management**

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



**17. Financial instruments (continued)**

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 therefore dependent on its ability to raise additional funds.

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

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Working capital deficiency /(surplus)	\$	240,191	\$	(138,249)
Long term debt		-		210,050
Shareholders' equity		917,110		972,016
	\$	1,157,301	\$	1,043,817

The working capital deficiency of \$240.2 million at September 30, 2015, includes the \$253.7 million current portion of the senior secured notes. There is no change in the Company's objectives and strategies of capital management for the three and nine month periods ended September 30, 2015.

**17.2 Categories of financial instruments**

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash, restricted cash and cash equivalents, deposits and other receivables	\$ 45,086	\$ 45,086	\$ 178,789	\$ 178,789
<b>Financial liabilities</b>				
Other liabilities	24,700	24,700	28,128	23,828
Share purchase warrants (Note 13.2)	133	133	382	382
Long-term debt	253,693	195,545	210,050	180,850

**17.3 Fair value of financial instruments**

The fair value of cash, restricted cash and cash equivalents, deposits, trade and other receivables and trade and accrued liabilities approximate their carrying values due to their short term maturity.

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

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

**17.4 Financial risk management**

Financial risks include market risk (including currency risk, interest rate risk, and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company does not use any derivative financial instruments to mitigate these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.



**17.5 Market risk**

Market risk is the risk that changes in market prices will affect the Company's net loss. The objective of market risk management is to manage and control market risk exposures within acceptable limits. There have been no changes over the prior year to the Company's objectives, policies or processes to manage market risks.

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum are impacted by world economic events that dictate the levels of supply and demand. The Company has not attempted to mitigate commodity price risk through the use of various financial derivative or physical delivery sales contracts.

**17.6 Currency risk**

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long term debt which are denominated in US dollars and/or HK dollars. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the nine month period ended September 30, 2015.

If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at September 30, 2015 would have been impacted by approximately \$0.2 million and the carrying value of the long term debt at September 30, 2015 would have been impacted by approximately \$2.5 million. At September 30, 2015, the Company held approximately US\$10.4 million of restricted cash and US\$5.0 of cash or \$13.9 million of restricted cash and \$6.7 million of cash respectively, using the September 30, 2015 exchange rate of 1.3394, as cash, restricted cash and cash equivalents in the Company's US bank account.

If exchange rates to convert from HKD dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at September 30, 2015 would have been impacted by approximately \$0.1 million. At September 30, 2015, the Company held, after recent equity closings, approximately HKD\$66.9 million or \$11.6 million using the September 30, 2015 exchange rate of 5.7863, as cash in the Company's HKD bank account.

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

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Unrealized foreign exchange loss (gain) on translation of:				
U.S. denominated senior secured notes	\$ 17,259	4,467	\$ 33,637	4,467
Foreign currency denominated cash balances	(2,882)	(2,293)	(7,136)	(1,784)
Foreign currency denominated accounts payable balances	(3)	1,428	40	1,255
	<u>14,374</u>	<u>3,602</u>	<u>26,541</u>	<u>3,938</u>
Realized foreign exchange loss	576	76	1,766	161
<b>Total foreign exchange loss (gain)</b>	<b>\$ 14,950</b>	<b>3,678</b>	<b>\$ 28,307</b>	<b>4,099</b>

**17.7 Interest rate risk management**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 2015, the Company does not have any floating rate debt.



**17. Financial instruments (continued)**

The Company’s cash and cash equivalents consists of cash held in bank accounts that earn interest at varying interest rates. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values or result in material interest rate risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. For the three and nine month periods ended September 30, 2015, the interest rate earned on cash was between 0.01% and 1.30%.

**17.8 Credit risk management**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s cash, deposits and receivables and GST receivables. As at September 30, 2015, the Company’s receivables consisted of 38% from Goods and Services Tax receivable, 44% joint interest billing receivable and 18% from other receivables (December 31, 2014 – 45% from Goods and Services Tax receivable, 37% from joint interest billing receivable and 18% from other receivables).

The Company’s unrestricted cash as at September 30, 2015, is held in accounts with third party financial institutions and consists of invested cash and cash in the Company’s operating accounts.

At September 30, 2015, there was no allowance for doubtful accounts receivable and the Company did not provide for any doubtful accounts nor was it required to write-off any receivables, as no receivables were considered impaired (December 31, 2014 - \$Nil). The Company considers any amounts outstanding in excess of 30 days past due.

**17.9 Liquidity risk management**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company’s approach to managing liquidity risk is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or debt proceeds. At September 30, 2015, the Company had negative working capital of \$240.2 million and an accumulated deficit of \$308.0 million. The Company’s ability to continue as a going concern is dependent on completion of West Ells development and the ability to access additional financing.

The Company utilizes authorizations for expenditures to manage its planned capital expenditures and actual expenditures are regularly monitored and modified as considered necessary.

The timing of cash outflows (excluding interest) relating to financial liabilities as at September 30, 2015, are as follows:

		<b>Total</b>	<b>Less than 1 year</b>	<b>1-2 years</b>
Trade and accrued liabilities	\$	24,700	\$ 24,700	\$ -
Debt <sup>1</sup>		267,880	267,880	-
	\$	292,580	\$ 292,580	\$ -

1. Principal amount of Notes based on the period end exchange rate of \$1 US = 1.3394 CDN

**18. Related party transactions**

Balances and transactions between the Company and its subsidiary, who is a related party, have been eliminated on consolidation.

**18.1 Trading transactions**

During the year ended December 31, 2014 the Company had transactions, totaling \$1.5 million, with a law firm in which Mr. Turnbull, a former director of the Company, is a partner. Mr. Turnbull was a director until the time of his resignation on November 28, 2014. On this date the law firm ceased to be a related party of the Company. The legal costs incurred were in the normal course of operations and were based on the exchange value of the services provided, which approximates those amounts of consideration with third parties.



**18.2 Compensation of key management personnel and directors**

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Directors' fees <sup>1</sup>	\$ 185	\$ 44	\$ 348	\$ 424
Salaries and allowances	1,308	716	2,662	1,047
Share-based payments	242	572	722	1,274
Consulting fees		7	-	445
	<u>\$ 1,735</u>	<u>\$ 1,339</u>	<u>\$ 3,732</u>	<u>\$ 3,190</u>

1. For the nine months period ended September 30, 2015, this number reflects accrued fees of \$0.7 million. Refer to appendix A2 for additional director fees disclosure.

**19. Operating lease arrangements**

**Payments recognised as an expense**

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Minimum lease payments	\$ 595	\$ 588	\$ 1,720	\$ 1,689

**20. Commitments and contingencies**

As at September 30, 2015, the Company's commitments are as follows:

	Total	2015	2016	2017	2018	2019	Thereafter
Repayment of long-term debt <sup>1</sup>	\$ 267,880	-	267,880	-	-	-	-
Interest payments on long-term debt <sup>2</sup>	26,788	-	26,788	-	-	-	-
Drilling, other equipment and contracts	10,592	3,858	6,437	214	83	-	-
Lease rentals <sup>3</sup>	9,064	220	1,194	1,176	1,176	1,169	4,129
Office leases	10,018	767	3,069	2,927	2,604	651	-
	<u>\$ 324,342</u>	<u>4,845</u>	<u>305,368</u>	<u>4,317</u>	<u>3,863</u>	<u>1,820</u>	<u>4,129</u>

1. Principal amount of Notes based on the period exchange rate of \$1US=1.3394CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not yet been satisfied.

2. Based on 10% per annum and a maturity date of August, 2016, at the period exchange rate of \$1US=1.3394CDN.

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

Following suspension of construction at the Company's West Ells SAGD project in August 2013, many suppliers, following normal practice in Canada, placed builders' liens on the West Ells property to secure past due and unpaid invoices. Through the normal course of business, the Company recorded the unpaid invoices in trade and accrued liabilities.

During 2014, the Company raised equity funds disclosed in Note 13 and completed additional financing, through the \$20 million sale of assets and the issuance of US\$200 million Senior Secured notes (Note 10), to enable it to meet obligations and continue developing its business. The Company obtained discharge of outstanding liens by October 7, 2014, thus satisfying the condition in the Notes (Note 10). From time to time, the Company receives liens or claims on accounts payable balances. Currently there are no liens or claims on significant balances for overdue accounts payable. Sunshine continues to work toward resolution of any claims.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's



**20. Commitments and contingencies (continued)**

IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for \$40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. Management considers the Action to be unfounded. No amounts have been accrued in the condensed interim consolidated financial statements for the nine month period ended September 30, 2015 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.

**21. Supplemental cash flow disclosures**

*Non-cash transactions*

For the three and nine month periods ended September 30, 2015, and September 30, 2014, the Company had the following non-cash transactions:

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

**Supplemental cash flow disclosures**

	For the three months ended		For the nine months ended	
	2015	September 30, 2014	2015	September 30, 2014
<b>Cash provided by (used in):</b>				
Trade and other receivables	\$ 805	\$ (142)	\$ (89)	\$ 25
Prepaid expenses and deposits	(1,984)	(529)	(1,858)	(5,317)
Trade and other payables	114	(28,038)	(3,470)	(105,527)
	<u>\$ (1,065)</u>	<u>\$ (28,709)</u>	<u>\$ (5,417)</u>	<u>\$ (110,819)</u>
<b>Changes in non-cash working capital relating to:</b>				
<i>Operating activities</i>				
Trade and other receivables	\$ 80	\$ 442	\$ (168)	\$ (927)
Prepaid expenses and deposits	(1,984)	(529)	(1,858)	(5,317)
Trade and other payables	766	(2,372)	2,024	(6,040)
	<u>\$ (1,138)</u>	<u>\$ (2,459)</u>	<u>\$ (2)</u>	<u>\$ (12,284)</u>
<i>Investing activities</i>				
Property, plant and equipment	6,004	(23,262)	(621)	(100,356)
	<u>\$ 6,004</u>	<u>\$ (23,262)</u>	<u>\$ (621)</u>	<u>\$ (100,356)</u>
<i>Financing activities</i>				
Share issue costs and finance costs	\$ (5,931)	\$ (2,988)	\$ (4,794)	\$ 1,821
	<u>\$ (1,065)</u>	<u>\$ (28,709)</u>	<u>\$ (5,417)</u>	<u>\$ (110,819)</u>



**21. Supplemental cash flow disclosures (continued)**

Reconciliation of certain amounts disclosed in the Condensed Interim Consolidated Statements of Cash Flows:					
	For the three months ended		For the nine months ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
<i>Reconciliation of:</i>					
Exploration and evaluation assets	\$ 592	\$ 585	\$ 1,231	\$ 3,799	
Changes in non-cash working capital	-	-	-	-	
Payments for exploration and evaluation assets	\$ 592	\$ 585	\$ 1,231	\$ 3,799	
<i>Reconciliation of:</i>					
Property, plant and equipment	\$ 36,512	\$ 8,140	\$ 124,688	\$ 14,545	
Changes in non-cash working capital	(6,004)	23,262	621	100,356	
Payments for property, plant and equipment	\$ 30,508	\$ 31,402	\$ 125,309	\$ 114,901	
<i>Reconciliation of:</i>					
Share issue costs and finance costs	\$ 6,596	\$ 215	\$ 18,903	\$ 5,876	
Changes in non-cash working capital	5,931	2,988	4,794	(1,821)	
Payments for share issue costs and finance costs	\$ 12,527	\$ 3,203	\$ 23,697	\$ 4,055	

**22. Subsequent events**

On November 2, 2015, the Board of Directors consented to a further extension of the closing date for the remaining 413,520,000 shares (HK\$ 310,140,000 or approximately CDN\$ 53.5 million) subscribed for by Prime Union to December 2, 2015 from November 2, 2015. The remaining subscribed shares can be closed in one or more tranches with the last tranche closing no later than December 2, 2015.

On November 10, 2015, the Company announced a private placement of 36,912,000 Class “A” common shares under the Company’s general mandate to issue shares. The share price is HK\$ 0.63 per common share for a total of HK\$ 23,254,560 or CDN\$ 3,982,286 at the date of the subscription. The Company expects to close the placement on November 19, 2015.

On November 13, 2015, the Company announced a private placement of 78,125,000 Class “A” common shares under the Company’s general mandate to issue shares. The share price is HK\$ 0.64 per common share for a total of HK\$ 50,000,000 or CDN\$ 8,585,017 at the date of the subscription. The Company expects to close the placement on November 26, 2015.

**23. Approval of condensed interim consolidated financial statements**

The condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on November 13, 2015.



**Appendix to the Condensed interim consolidated financial statements**

**Additional Stock Exchange Information  
(Unaudited)**

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 and Boxian.

	September 30, 2015	December 31, 2014
<i>Non-current assets</i>		
Property, plant and equipment	\$ 827,242	\$ 701,735
Exploration and evaluation assets	380,784	379,403
Restricted cash and cash equivalents	-	11,601
Amounts due from subsidiary	2,510	1,530
	1,210,536	1,094,269
<i>Current assets</i>		
Trade and other receivables	2,002	1,913
Prepaid expenses and deposits	7,701	5,843
Cash	21,704	136,087
Restricted cash and cash equivalents	13,925	23,467
	45,332	167,310
<i>Current liabilities</i>		
Trade and other payables	24,683	28,074
Provisions	7,163	834
Share purchase warrants	133	109
Amount due to subsidiary	1,810	1,567
Debt	253,693	-
	287,482	30,584
Net current assets	(242,150)	136,726
Total assets less current liabilities	968,386	1,230,995
<i>Non-current liabilities</i>		
Share purchase warrants	-	273
Long term debt	-	210,050
Provisions	50,726	48,650
	50,726	258,973
Net assets	\$ 917,660	\$ 972,022
<i>Capital and reserves</i>		
Share capital	\$ 1,162,607	\$ 1,139,022
Reserve for share-based compensation	62,541	60,658
Deficit	(307,488)	(227,658)
	\$ 917,660	\$ 972,022





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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
<i>Directors' emoluments</i>				
Directors' fees	\$ 185	\$ 44	\$ 348	\$ 424
Salaries and allowances	709	7	1,584	445
Share-based payments	184	523	530	1,687
	1,078	574	2,462	2,556
<i>Other staff costs</i>				
Salaries and other benefits	3,573	3,753	9,966	8,999
Contribution to retirement benefit scheme	31	28	283	269
Share-based payments	165	1,088	1,408	769
	3,769	4,869	11,657	10,037
Total staff costs, including directors' emoluments	4,847	5,443	14,119	12,593
Less: staff costs capitalized to qualifying assets	(1,397)	(2,459)	(4,778)	(5,471)
	\$ 3,450	\$ 2,984	\$ 9,341	\$ 7,122

Details of the Directors' emoluments are as follows:

For the three months ended September 30, 2015						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation <sup>1</sup>	Performance related incentive payments	Total
Michael Hibberd	\$ 22	\$ 75	\$ -	\$ 79	\$ -	\$ 176
Tseung Hok Ming	15	-	-	6	-	21
Tingan Liu	-	-	-	-	-	-
Haotian Li	12	-	-	6	-	18
Raymond Fong	16	-	-	6	-	22
Robert Herdman	19	-	-	6	-	25
Gerald Stevenson	18	-	-	6	-	24
Jimmy Hu	13	-	-	-	-	13
Zhefei Song	17	-	-	-	-	17
Hong Luo	16	107	-	17	-	140
Qi Jiang	16	527	-	58	-	601
Kwok Ping Sun	21	-	-	-	-	21
	\$ 185	\$ 709	\$ -	\$ 184	\$ -	\$ 1,078

1. For the three month period ended September 30, 2015, no options have been granted to Directors.



**A2. Directors' emoluments and other staff costs (continued)**

**For the three months ended September 30, 2014**

Name of Director	Directors' fees <sup>1</sup>	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation <sup>1</sup>	Performance related incentive payments	Total
Michael Hibberd	\$ 7	\$ 60	\$ -	\$ 222	\$ -	\$ 289
Songning Shen	(13)	(53)	-	222	-	156
Tseung Hok Ming	(2)	-	-	27	-	25
Tingan Liu	12	-	-	-	-	12
Haotian Li	11	-	-	12	-	23
Raymond Fong	2	-	-	27	-	29
Wazir (Mike) Seth	(13)	-	-	(68)	-	(81)
Greg Turnbull	(3)	-	-	27	-	24
Robert Herdman	7	-	-	27	-	34
Gerald Stevenson	4	-	-	27	-	31
Jin Hu	16	-	-	-	-	16
Zhefei Song	16	-	-	-	-	16
	\$ 44	\$ 7	\$ -	\$ 523	\$ -	\$ 574

1. For the three month period ended September 30, 2014, \$120 thousand of previously recognised directors' fees and \$106 thousand of salaries and allowances were classified as share-based compensation as the amounts were settled in shares.

**For the nine months ended September 30, 2015**

Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation <sup>2</sup>	Performance related incentive payments	Total
Michael Hibberd	\$ 67	\$ 298	\$ -	\$ 231	\$ -	\$ 596
Tseung Hok Ming	45	-	-	18	-	63
Tingan Liu <sup>1</sup>	(178)	-	-	-	-	(178)
Haotian Li	36	-	-	18	-	54
Raymond Fong	52	-	-	18	-	70
Robert Herdman	60	-	-	18	-	78
Gerald Stevenson	59	-	-	18	-	77
Jimmy Hu	37	-	-	-	-	37
Zhefei Song	48	-	-	-	-	48
Hong Luo	46	107	-	48	-	201
Qi Jiang	49	1,179	-	161	-	1,389
Kwok Ping Sun	27	-	-	-	-	27
	\$ 348	\$ 1,584	\$ -	\$ 530	\$ -	\$ 2,462

1. Upon receipt of a waiver from Mr. Liu, all prior period director entitlement accruals were reversed.  
 2. For the nine month period ended September 30, 2015, no options have been granted to Directors.



**A2. Directors' emoluments and other staff costs (continued)**

**For the nine months ended September 30, 2014**

Name of Director	Directors' fees <sup>1</sup>	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation <sup>1</sup>	Performance related incentive payments	Total
Michael Hibberd	\$ 50	\$ 279	\$ -	\$ 713	\$ -	\$ 1,042
Songning Shen	30	166	-	713	-	909
Tseung Hok Ming	29	-	-	53	-	82
Tingan Liu	39	-	-	-	-	39
Haotian Li	36	-	-	38	-	74
Raymond Fong	37	-	-	53	-	90
Wazir (Mike) Seth	32	-	-	(42)	-	(10)
Greg Turnbull	34	-	-	53	-	87
Robert Herdman	54	-	-	53	-	107
Gerald Stevenson	50	-	-	53	-	103
Jimmy Hu	17	-	-	-	-	17
Zhefei Song	16	-	-	-	-	16
	\$ 424	\$ 445	\$ -	\$ 1,687	\$ -	\$ 2,556

1. For the three month period ended September 30, 2014, \$120 thousand of previously recognised directors' fees and \$106 thousand of salaries and allowances were classified as share-based compensation as the amounts were settled in shares.

**A3. Five highest paid individuals**

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
HK\$ nil to HK\$1,000,000	2	-	-	-
HK\$1,000,001 to HK\$1,500,000	1	3	-	1
HK\$1,500,001 to HK\$2,000,000	-	1	2	-
HK\$2,000,001 to HK\$2,500,000	-	1	-	2
HK\$2,500,001 to HK\$3,000,000	1	-	-	-
HK\$3,000,001 to HK\$3,500,000	-	-	-	-
HK\$3,500,001 to HK\$4,000,000	1	-	1	-
HK\$4,000,001 to HK\$4,500,000	-	-	1	-
HK\$4,500,001 to HK\$5,000,000	-	-	-	-
HK\$5,000,001 to HK\$5,500,000	-	-	-	-
HK\$5,500,001 to HK\$6,000,000	-	-	-	-
HK\$6,000,001 to HK\$6,500,000	-	-	-	1
HK\$6,500,001 to HK\$7,000,000	-	-	-	-
>HK\$7,000,000	-	-	1	1

For the three and nine month periods ended September 30, 2015, respectively, the conversion factor used in the above table is 1C\$ = 5.92 HK\$ and 1C\$ = 6.15 HK\$ (three and nine month periods ended September 30, 2014 – 1C\$ = 7.12 HK\$ and 1C\$ = 7.09 HK\$, respectively)

The five highest paid individuals includes two directors of the Company and three key management executives of the Company for the three month period ended September 30, 2015 (three and nine month periods ended September 30, 2014 – two directors and three key management executives). Since the directors' emoluments are disclosed above, the compensation of the three key management executives for the Company is as follows:



**A3. Five highest paid individuals (continued)**

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Salaries and other benefits	\$ 599	\$ 335	\$ 1,073	\$ 572
Contributions to retirement benefits scheme	-	-	5	5
Share-based payments	58	199	192	244
	<u>\$ 657</u>	<u>\$ 534</u>	<u>\$ 1,270</u>	<u>\$ 821</u>

**A4. Senior management remuneration by band**

The emoluments fell within the following bands:

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
HK\$ nil to HK\$1,000,000	4	5	2	2
HK\$1,000,001 to HK\$1,500,000	-	1	1	-
HK\$1,500,001 to HK\$2,000,000	-	-	2	2
HK\$2,000,001 to HK\$2,500,000	-	1	-	1
HK\$2,500,001 to HK\$3,000,000	1	-	1	-
HK\$3,000,001 to HK\$3,500,000	-	-	-	-
HK\$3,500,001 to HK\$4,000,000	1	-	-	-
HK\$4,000,001 to HK\$4,500,000	-	-	1	-
HK\$4,500,001 to HK\$5,000,000	-	-	-	-
HK\$5,000,001 to HK\$5,500,000	-	-	-	-
HK\$5,500,001 to HK\$6,000,000	-	-	-	-
HK\$6,000,001 to HK\$6,500,000	-	-	-	1
HK\$6,500,001 to HK\$7,000,000	-	-	-	-
>HK\$7,000,000	-	-	1	1

For the three and nine month periods ended September 30, 2015, respectively, the conversion factor used in the above table is 1C\$ = 5.92 HK\$ and 1C\$ = 6.15 HK\$ (three and nine month periods ended September 30, 2014 – 1C\$ = 7.12 HK\$ and 1C\$ = 7.09 HK\$, respectively)

The table above includes the remuneration for the executive directors and executive officers of the Company. As at September 30, 2015, \$0.6 million (2014 - \$0.2 million) was the total payable to five members (2014 – 3 members) of senior management and this was included in trade and accrued liabilities. Two executive directors ceased to be executive directors on June 28, 2015.