阳光油砂

SUNSHINE OILSANDS LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

	Notes	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash		$ 1,676	$ 583
Trade and other receivables		6,251	13,457
Prepaid expenses and deposits		3,191	3,208
		11,118	17,248
Non-current assets			
Swap Loan	8.3	9,952	-
Exploration and evaluation	4	270,038	269,218
Property, plant and equipment	5	482,358	492,815
Right-of-use assets	6	2,352	-
		764,700	762,033
		$ 775,818	$ 779,281
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and accrued liabilities	7	$ 223,703	$ 183,137
Bonds	8.2	895	24,462
Shareholders loans	18	11,508	-
Senior notes	8.1	263,064	270,990
		499,170	478,589
Non-current liabilities			
Swap Loan	8.3	9,952	-
Convertible bond	8.2	13,837	-
Lease Liabilities	6	2,462	-
Provisions	9	49,193	48,739
		574,614	527,328
Shareholders' Equity			
Share capital	11	1,295,657	1,293,379
Reserve for share-based compensation	12	75,559	74,531
Deficit		(1,170,012)	(1,115,957)
		201,204	251,953
		$ 775,818	$ 779,281

Going concern (Note 2)
Commitments and contingencies (Note 19)
Subsequent events (Note 21)

Approved by the Board

"David Yi He"
Independent Non-Executive Director

"Kwok Ping Sun"
Executive Director

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

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

	Notes	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenues and Other Income					
Petroleum sales, net of royalties	13.1	$ 12,512	$ 12,016	$ 32,618	$ 32,263
Other income	13.2	492	1	527	4
		13,004	12,017	33,145	32,267
Expenses					
Diluent		3,345	2,681	8,583	9,285
Transportation		4,561	4,047	11,022	11,660
Operating		4,765	5,030	14,962	16,093
Depletion and depreciation	5,6	4,950	3,764	12,031	11,289
General and administrative	14	2,582	2,803	7,295	8,806
Finance costs	15	8,290	13,824	40,457	45,963
Stock based compensation	12.2	343	497	1,028	1,269
Foreign exchange (gains)/losses	17.3	3,308	(4,342)	(8,178)	8,167
		$ 32,144	$ 28,304	$ 87,200	$ 112,532
Loss before income taxes		19,140	16,287	54,055	80,265
Income taxes		-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company		$ 19,140	$ 16,287	$ 54,055	$ 80,265
Basic and diluted loss per share	16	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

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

	Notes	Share capital	Reserve for share based compensation	Deficit	Total
Balance, December 31, 2018		$ 1,293,379	$ 74,531	$ (1,115,957)	$ 251,953
Net loss and comprehensive loss for the period		-	-	(54,055)	(54,055)
Issue of common shares	11.1	2,296	-	-	2,296
Share issue costs, net of deferred tax ($Nil)	11.1	(18)	-	-	(18)
Recognition of share-based compensation	12.2	-	1,028	-	1,028
Balance, September 30, 2019		$ 1,295,657	$ 75,559	$ (1,170,012)	$ 201,204
Balance, December 31, 2017		$ 1,275,008	$ 70,522	$ (988,961)	$ 356,569
Net loss and comprehensive loss for the period		-	-	(80,265)	(80,265)
Issue of common shares	11.1	15,081	-	-	15,081
Share issue costs, net of deferred tax ($Nil)	11.1	(260)	-	-	(260)
Recognition of share-based compensation	12.2	-	1,269	-	1,269
Balance, September 30, 2018		$ 1,289,829	$ 71,791	$ (1,069,226)	$ 292,394

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

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

For the nine months ended September 30,	Notes	2019	2018
Cash flows used in operating activities			
Net loss for the period		$ (54,055)	$ (80,265)
Finance costs	15	40,457	45,963
Unrealized foreign exchange (gains)/losses	17.3	(8,396)	8,349
Other income	13.2	(289)	(4)
Depletion and depreciation	5,6	12,031	11,289
Share-based compensation	12.2	1,028	1,269
Movement in non-cash working capital	20	(209)	(428)
Net cash used in operating activities		(9,433)	(13,827)
Cash flows used in investing activities			
Other income received	13.2	37	4
Payments for exploration and evaluation assets	4	(893)	(1,279)
Payments for property, plant and equipment	5	(1,093)	(1,426)
Movement in non-cash working capital	20	(1,239)	(352)
Net cash used in investing activities		(3,188)	(3,053)
Cash flows provided in financing activities			
Proceeds from issue of common shares		-	15,081
Payments for share issue costs	11.1	(18)	(260)
Payment for interest costs on bonds	15	(1,055)	(311)
Proceeds from bonds	20	17,106	4,862
Payment for bonds	20	(16,514)	-
Proceeds from shareholder loans	20	12,845	-
Repayment of shareholder loans	20	(1,243)	(3,826)
Movement in non-cash working capital	20	2,296	-
Net cash provided by financing activities		13,417	15,546
Effect of exchange rate changes on cash held in foreign currency	17.3	297	(14)
Net increase / (decrease) in cash		1,093	(1,348)
Cash, beginning of period		583	3,671
Cash, end of period		$ 1,676	$ 2,323

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

1. Company information

Sunshine Oilsands Ltd. (the "Company") was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of its principal place of business is 1100, 700 – 6th Avenue S.W., Calgary, Alberta, Canada T2P 0T8. The Company's shares were listed on the Stock Exchange of Hong Kong Limited ("SEHK") on March 1, 2012 pursuant to an initial public offering ("IPO") and trades under the stock code symbol of "2012". On November 16, 2012, the Company completed a listing of its common shares on the Toronto Stock Exchange ("TSX") and traded under the symbol of "SUO". On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company continues to be a reporting issuer in Canada.

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

On July 14, 2015, Boxian Investments Limited ("Boxian") was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Boxian is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As of September 30, 2019, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

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

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

2. Basis of preparation

Going Concern

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

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes (Note 8). Management continually monitors the Company's financing requirements and is continually examining alternatives to 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 September 30, 2019.

The timing and extent of forecast capital and operating expenditures is based on management's estimate of expenditures expected to be incurred beyond 2019. The Company has a significant degree of control and flexibility over both the extent and timing of expenditures under its future capital investment program.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2019, 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:

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

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement (the "FRA") and a Note Exchange Agreement (the "NEA") with the Forbearing Holders. They agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD $2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD $5.2 million was paid;
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD $11.2 million of Senior Notes in exchange for Common Shares of Sunshine, pending on conditions.

Other payments contemplated in the FRA included:

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

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

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

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

On October 31, 2018 (Calgary time), the Company and the Noteholders signed a Reinstatement and Amending Agreement (the “FRAA”). The principal terms of the FRAA include:

- The Forbearance was extended to August 1, 2019 (New York time);
- An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
- The Company is to obtain financing of at least US$5.0 million from the date of signing until April 30, 2019 to maintain sufficient liquidity.

As at the date of this announcement, the Company is in negotiation with the noteholders on further forbearance.

On February 27, 2019, the Company received the notice from the Alberta Court of Queen’s Bench. As a result, CAD$0.7 million of cash was to be put aside for creditor repayment. The Company has filed an appeal against such notice and will be contesting this notice in Court. On June 19, 2019, the Company received another notice from the Alberta Court of Queen’s Bench. As a result, CAD$0.54 million of cash was to be put aside for creditor repayment subsequent to end of Q2. The court case was then dismissed.

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

These Condensed Consolidated Interim Financial Statements reflect management’s best estimates after giving consideration to likely outcomes. The Condensed Consolidated Interim Financial Statements continue to be prepared in accordance with International Financial Reporting Standards (“IFRS”) and are consistent with the Company’s accounting policies as outlined in financial statement Note 3.

2.1 Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared using the same accounting policies and methods as those used in the Company’s audited consolidated financial statements for the year ended December 31, 2018. The Condensed Consolidated Interim Financial Statements are in compliance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The Condensed Consolidated Interim Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 17). The Condensed Consolidated Interim Financial Statements are presented in Canadian Dollars (“$”), which is the functional currency of the Company.

The Company has consistently applied the accounting policies to all periods presented in these financial statements. Certain information and disclosures normally included in the audited annual consolidated financial statements, prepared in accordance with International Financial Reporting Standards (“IFRS”), have been condensed or omitted, except for the adoption of IFRS 15 Revenue From Contracts With Customers, IFRS 9 Financial Instruments and IFRIC 22 Foreign Currency Transactions and Advance Consideration. Accordingly, these Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited annual Consolidated Financial Statements for the year ended December 31, 2018.

Going concern

The Board has considered the Company’s current activities, funding position and projected funding requirements for the period of at least twelve months from the date these Condensed Consolidated Interim Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2019. The assessment of the Company’s ability to execute its strategy to meet its future funding requirements involves judgment.

3. Significant accounting policies

These Condensed Consolidated Interim Financial Statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2018, with the exception of the adoption of IFRS 16 described below.

IFRS 16 -Leases

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”), which replaces the existing IFRS guidance on leases: IAS 17 Leases (“IAS 17”). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases are recognized on the balance sheet while operating leases are recognized in the Consolidated Statements of Income when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease contracts. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depreciation and amortization, and interest expense.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s financial statements are not restated.

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company’s incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Company applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months, excluded initial direct costs from measuring the right-of-use asset at the date of initial application, and applied a single discount rate to a portfolio of leases with similar characteristics.

Financial Statement Impact

The recognition of the present value of minimum lease payments resulted in an additional $2.4 million of right-of-use assets and associated lease liabilities. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company’s discounted rates used in measuring lease liabilities was 7.9% for trucks and trailers and 10% for the offices. The nature of the Company’s long-term leasing activities includes trucks, trailers and the offices in Calgary, Shanghai and Hong Kong.

4. Exploration and evaluation

Balance, December 31, 2017	$	268,227
Capital expenditures		1,511
Non-cash expenditures[1]		(520)
Impairment loss		-
Balance, December 31, 2018	$	269,218
Capital expenditures		893
Non-cash expenditures[1]		(73)
Balance, September 30, 2019	$	270,038

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

Exploration and evaluation (“E&E”) assets are comprised of undeveloped land and oil sands evaluation projects pending the determination of technical feasibility and commercial viability. As at September 30, 2019, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the E&E Assets.

5. Property, plant and equipment

		Crude oil assets		Corporate assets		Total
Cost						
Balance, December 31, 2017	$	894,772	$	5,307	$	900,079
Capital expenditures		1,291		98		1,389
Non-cash expenditures[1]		(2,334)		-		(2,334)
Balance, December 31, 2018	$	893,729	$	5,405	$	899,134
Capital expenditures		1,006		87.00		1,093
Non-cash expenditures[1]		(334)		-		(334)
Balance, September 30, 2019	$	894,401	$	5,492	$	899,893

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

		Crude oil assets		Corporate assets		Total
Accumulated depletion, depreciation and impairment						
Balance, December 31, 2017	$	389,183	$	3,480	$	392,663
Depletion and depreciation expense		13,133		522		13,655
Impairment loss		-		-		-
Balance, December 31, 2018	$	402,316	$	4,002	$	406,318
Depletion and depreciation expense		10,893		324		11,217
Balance, September 30, 2019	$	413,209	$	4,326	$	417,535
Carrying value, December 31, 2018	$	491,413	$	1,403	$	492,816
Carrying value, September 30, 2019	**$**	**481,192**	**$**	**1,166**	**$**	**482,358**

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at that time, the Company ceased capitalization of petroleum revenue, royalties, diluent, transportation, and operating expenses relating to West Ells Project I and has included these amounts in the statement of comprehensive income (loss) for the three and nine months ended September 30, 2019.

The Company started recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three months ended March 31, 2017. Prior to March 1, 2017, the West Ells Phase I assets of $687.1 million were
not being depleted. In determining the unit-of-production depletion charge on recoverable reserves, future development costs of $2,520 million (2018 - $2,400 million) were included in property, plant and equipment.

As at September 30, 2019, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the West Ells Cash Generating Unit (CGU).

6. Right-of-use Assets and Leases Liabilities

Right-of-use Assets

	Trucks & Trailers	Offices	Total
January 1, 2019			
Initial recognition	$ 861	$ 1,647	$ 2,508
Additions	-	659	659
Depreciation	(160)	(655)	(815)
September 30, 2019	$ 701	$ 1,651	$ 2,352

Leases Liabilities

Balance Sheets

	September 30, 2019
Non-current lease liabilities	$ 2,462

Cash Flow Summary

	Three months ended September 30, 2019	Nine Months Ended September 30, 2019
Total cash flow used for leases	$ 447	$ 864

Effective January 1, 2019, the Company recognizes right-of-use assets (‘ROA”) and lease liabilities at the lease commencement date. The right-of-use assets are initially measured at cost, and subsequently depreciated using the straight-line method from the commencement date to the end of the lease term (4 years for trucks, 6 years for trailers and 3 years for the offices). Due to fluctuations in foreign currency exchange rates, the initial amount and additions for Hong Kong and Shanghai office rent amount slightly changed. As September 30, 2019, the ROA and non-current lease liabilities include the trucks, trailers and the offices in Shanghai, Hong Kong and Calgary.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, which are 7.9% for the trucks and trailers, and 10% for the offices.

7. Trade and accrued liabilities

		September 30, 2019		December 31, 2018
Trade	$	30,506	$	28,262
Accrued liabilities		193,197		154,875
	$	223,703	$	183,137

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

		September 30, 2019		December 31, 2018
Trade				
0 - 30 days	$	682	$	2,437
31 - 60 days		589		1,346
61 - 90 days		898		1,442
> 90 days		28,337		23,037
		30,506		28,262
Accrued liabilities		193,197		154,875
	$	223,703	$	183,137

8. Senior Notes & Bonds

8.1 Senior Notes

		September 30, 2019		December 31, 2018
Senior secured notes	$	263,064	$	270,990
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	$	263,064	$	270,990

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

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

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of $19.1 million
due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD $22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

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

- Payment of USD $2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD $5.2 million was paid;
- Sunshine agreed to repurchase and the Forbearing Holders agreed to sell up to USD $11.2 million of Senior Notes in exchange for Common Shares of Sunshine, pending on conditions.

Other payments contemplated in the FRA included:

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

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

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

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

On August 1, 2018, the Company was required, amongst other matters, repay notes principal, and any previous outstanding payment commitments. Sunshine did not fulfill the repayment requirements. On October 31, 2018 (Calgary time), the Company and the Noteholders signed a Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The Forbearance was extended to August 1, 2019 (New York time);
- An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
- The Company is to obtain financing of at least USD $5.0 million from the date hereof until April 30, 2019 to maintain sufficient liquidity.

As at the date of this report, the Company is in negotiation with the noteholders on further forbearance.

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 September 30, 2019, the Company had incurred unsecured third party debt for a total of US$19.8 million (CDN$26.2 million equivalent). (Permitted Debt limit is US$15.0 million.)

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 September 30, 2019, the Company had incurred $4.46 million (US $3.37 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes and Permitted Debt are translated into Canadian dollars at the period end exchange rate of $1USD = $1.3243 CAD.

8.2 Bonds

For the nine months ended September 30, 2019, the Company issued various unsecured bonds for a total proceeds of $17.1 million (2018: $21.0 million). These amounts were mainly received in USD/HKD. The instruments bear interest of 10% to 20% per annum and have a potential maturity date of December 31, 2019 except for convertible bond USD$10.45 million which matures in July 2021. These bonds and loan balances are not subject to any financial covenants. For the nine months ended September 30, 2019, the Company had repaid bonds principal of $16.5 million plus interests.

		September 30, 2019		December 31, 2018
Opening balance	$	24,462	$	3,452
Current bond		3,429		21,010
Non-current bond (USD $10.45M)		13,677		9,813
Repayment of Bonds		(16,514)		(9,813)
Balance, end of year	$	25,054	$	24,462

8.3 Swap loan

During the year of 2018, the Company and Zhengwei International Investment and Management Co. Ltd, an investment holding company registered in Hong Kong ("Zhengwei"), made two swap RMB/HKD loan agreements based on following terms:

Date of Agreement	RMB	HKD	CAD	Interest rate (%)	Maturity Date
07-Jun-18	$ 8,169,000	$ 10,000,000	$ 1,689,246	0%	5 years from withdraw date
18-Oct-18	43,443,220	48,913,554	8,262,704	0%	2 years from withdraw date
Total	**$ 51,612,220**	**$ 58,913,554**	**$ 9,951,950**		

The Company provided RMB loan to Zhengwei and received HKD loan from Zhengwei. The Company has to repay the HKD to receive RMB from Zhengwei. As at September 30, 2019, the swap loan of $10.0 million had been reclassified from current assets/liabilities to non-current assets/liabilities, as it will be paid/received in two or five years from loan withdraw date.

9. Provisions

		September 30, 2019		December 31, 2018
Decommissioning obligations (Note 9.1)	$	49,193	$	48,739
	$	49,193	$	48,739
Presented as:				
Provisions (non-current)	$	49,193	$	48,739

9.1 Decommissioning obligations

As at September 30, 2019, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $75.6 million (December 31, 2018 - $77.0 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate from 1.54% to 2.34% per annum and inflated using an inflation rate of 2.0% per annum.

		September 30, 2019		December 31, 2018
Balance, beginning of year	$	48,739	$	50,481
Effect of changes in discount rate		(406)		(2,854)
Unwinding of discount rate		860		1,112
Balance, end of period	$	49,193	$	48,739

10. Income taxes

10.1 Deferred tax balances

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the nine months ended September 30, 2019 and year ended December 31, 2018. The components of the net deferred income tax asset are as follows:

		September 30, 2019		December 31, 2018
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(98,076)	$	(83,667)
Decommissioning liabilities		13,282		13,160
Share issue costs		452		702
Non-capital losses		323,719		299,767
Total debt		(3,419)		3,147
Deferred tax benefits not recognized		(235,958)		(233,108)
	$	-	$	-

11. Share capital

The Company's authorized share capital is as follows:

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

Issued Capital

		September 30, 2019		December 31, 2018
Common shares	$	1,295,657	$	1,293,379

11.1 Common shares

	September 30, 2019		December 31, 2018	
	Number of shares	$	Number of shares	$
Balance, beginning of year	6,135,846,624	1,293,379	5,627,877,613	1,275,008
Private placements – general mandate	158,590,480	1,952	507,969,011	18,631
Director Share Arrangement	21,779,902	344	-	-
Share issue costs, net of deferred tax ($Nil)	-	(18)	-	(260)
Balance, end of period	6,316,217,006	1,295,657	6,135,846,624	1,293,379

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

General mandate

2019 activity

On May 15, 2019, the Board of the Company approved the payment of the director fees of certain directors (the "Connected Directors") for the period from October 1, 2017 to April 30, 2019 in shares in lieu of cash, subject to Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. On June 24, 2019, the proposed issuance of 21,779,902 new Shares to the Connected Directors as payment of director fee has been approved by the independent shareholders at the Special General Meeting. The completion took place on July 11, 2019. An aggregate of 21,779,902 new Shares were allotted and issued to the Connected Directors at an Issue Price of HK$0.092 (approximately CAD $0.015 per share) per Share.

On June 17, 2019, the Company entered into a subscription agreement for convertible bonds in the principal amount of USD 10.45 million (approximately CAD $13.68 million) with an independent third party. With an initial conversion price of HKD $0.0822 per share (approximately CAD $0.014 per share), a maximum of 990,347,263 Class "A" common shares will be allotted and issued upon the full conversion of the convertible bonds. The convertible bonds interest rate is 10.0% per annum and required repayment in full within two years from the issuance date. All the subscription proceeds were subsequently received on 29 July 2019. The entire proceeds will be used to financing its general working capital and capital expenditure for its West Ells project.

On August 9, 2019 the Company entered into a settlement agreement for a total of 57,690,480 class "A" common shares at a price of HKD $0.077 per share for gross proceeds of HKD $4,442,166.93. On August 16, 2019 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of debt with an independent third party.

On August 16, 2019, the Company entered into a settlement agreement for a total of 100,900,000 class "A" common shares at a price of HKD $0.070 per share for gross proceeds of HKD $7,062,978.22. On August 22, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

2018 activity

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

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD $0.244 per share (approximately CAD $0.039 per common share), for gross proceeds of HKD $30.0 million (approximately CAD $4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD $0.244 per share for gross proceeds of HKD $28.5 million (approximately CAD $4.6 million) of this subscription agreement. In addition, a placing commission of HKD $0.9 million (approximately CAD $0.14 million), was incurred in relation to the Closing. The subscription agreement expired on February 13, 2018 and hence the time to close the remaining 6,147,500 class "A" common shares lapsed.

On February 28, 2018 the Company entered into a settlement agreement for a total of 102,436,500 class “A” common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $25.1 million (approximately CAD $4.1 million). On March 14, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with two independent third parties.

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

On June 7, 2018 the Company entered into a settlement agreement for a total of 30,765,000 class “A” common shares at a price of HKD $0.214 per share (approximately CAD $0.035 per common share), for gross proceeds of HKD $6.6 million (approximately CAD $1.1 million). On June 15, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On July 6, 2018, the Company entered into a settlement agreement for a total of 14,322,500 class “A” common shares at a price of HKD $0.192 per share (approximately CAD $0.032 per common share), for gross proceeds of HKD $2.75 million (approximately CAD $0.46 million). This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On September 11, 2018, the Company entered into a settlement agreement for a total of 11,868,000 class “A” common shares at a price of HKD $0.159 per share (approximately CAD $0.026 per common share), for gross proceeds of HKD $1.89 million (approximately CAD $0.31 million). On September 20, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On September 17, 2018, the Company entered into a settlement agreement for a total of 8,247,500 class “A” common shares at a price of HKD $0.166 per share (approximately CAD $0.028 per common share), for gross proceeds of HKD $1.37 million (approximately CAD $0.23 million). On September 21, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On November 2, 2018, the Company entered into a settlement agreement for a total of 32,832,000 class “A” common shares at a price of HKD $0.146 per share (approximately CAD $0.0246 per common share), for gross proceeds of HKD $4.79 million (approximately CAD $0.81 million). On November 16, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On November 14, 2018, the Company entered into a settlement agreement for a total of 2,199,500 class “A” common shares at a price of HKD $0.152 per share (approximately CAD $0.0257 per common share), for gross proceeds of HKD $0.33 million (approximately CAD $0.06 million). On November 21, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On November 23, 2018, the Company entered into a settlement agreement for a total of 1,000,500 class “A” common shares at a price of HKD $0.144 per share (approximately CAD $0.0245 per common share), for gross proceeds of HKD $0.14 million (approximately CAD $0.02 million). On November 29, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On June 25, 2018, the Company entered into a subscription agreement for convertible bonds in the principal amount up to HKD $11 million (approximately CAD $1.87 million) with independent third parties. With an initial conversion price of HKD $0.207 per share (approximately CAD $0.035 per share), a maximum of 53,140,097 Class “A” common shares was to be allotted and issuance upon the full conversion of the placing Convertible Bonds (“CB”). The convertible bonds interest rate was 5.0% per annum and required repayment in full within three months from the maturity date. On July 5, 2018, the Company completed the placing of convertible bonds. The Conversion Period expired on September 30, 2018 and no conversion right attached to the Placing CB was exercised. As such, CBs were redeemed by the Company and were cancelled.

On September 28, 2018, the Company entered into a subscription agreement for convertible bonds in the principal amount up to HKD $11 million (approximately CAD $1.81 million) with independent third parties. With an initial conversion price of HKD $0.210 per share (approximately CAD $0.036 per share), a maximum of 52,380,952 Class “A” common shares were allotted and issuable upon the full conversion of the placing convertible bonds. The convertible bonds interest rate was 13.7% per annum and required repayment in full within two months from the maturity date. On October 5, 2018, the Company completed the placing of convertible bonds. On November 30, 2018, the Company received conversion notices from all Placees and they exercised all the Conversion Rights attached to these convertible bonds to convert the whole principal amount of the convertible bonds into Shares at the Conversion Price of HK$0.210 per share (approximately CAD $0.036 per share). Accordingly, 52,380,952 Class “A” common shares were allotted and issued to the Placees.

On December 5, 2018, the Company entered into a settlement agreement for a total of 27,983,000 class “A” common shares at a price of HKD $0.137 per share (approximately CAD $0.0234 per common share), for gross proceeds of HKD
$3.83 million (approximately CAD $0.66 million). On December 14, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On December 20, 2018, the Company entered into a settlement agreement for a total of 5,854,500 class “A” common shares at a price of HKD $0.133 per share (approximately CAD $0.0232 per common share), for gross proceeds of HKD $0.78 million (approximately CAD $0.14 million). On December 28, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

12. Share-based compensation

12.1 Movements in stock options

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

	September 30, 2019		**December 31, 2018**	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, beginning of period	491,005,881	0.06	195,435,525	0.09
Granted	10,000,000	0.01	315,000,000	0.04
Forfeited	(34,712,435)	0.10	(17,805,743)	0.08
Expired	(6,590,739)	0.14	(1,623,901)	0.08
Balance, end of period	459,702,707	0.05	491,005,881	0.06
Exercisable, end of period	348,036,040	0.06	277,150,776	0.07

As at September 30, 2019, stock options outstanding had a weighted average remaining contractual life of 2.9 years (December 31, 2018 – 3.8 years). The Company granted 10,000,000 stock options during the nine months ended September 30, 2019.

12.2 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 September 30, 2019			**Three months ended September 30, 2018**	
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 343	$ -	$ 343	$ 497	$ -	$ 497

		Nine months ended September 30, 2019			**Nine months ended September 30, 2018**	
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 1,028	$ -	$ 1,028	$ 1,269	$ -	$ 1,269

13. Revenue

Revenues by classification

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Petroleum sales	$ 12,691	$ 12,286	$ 33,142	$ 32,796
	12,691	12,286	33,142	32,796
Other revenue	492	1	527	4
Balance, end of period	$ 13,183	$ 12,287	$ 33,669	$ 32,800

13.1 Petroleum revenue, net of royalties

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Petroleum sales	$ 12,691	$ 12,286	$ 33,142	$ 32,796
Royalties	(179)	(270)	(524)	(533)
Balance, end of period	$ 12,512	$ 12,016	$ 32,618	$ 32,263

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. The West Ells project is currently at pre-payout.

Petroleum sales by product

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Crude oil sales	$ 12,691	$ 12,286	$ 33,142	$ 32,796
Balance, end of period	$ 12,691	$ 12,286	$ 33,142	$ 32,796

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

13.2 Other income

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest income	$ 2	$ 1	$ 5	$ 3
Gain/(Loss) on Sale of Asset	-	-	32	1
Gain/(Loss) on share issuance	238	-	238	-
Other Income	252	-	252	-
Balance, end of period	$ 492	$ 1	$ 527	$ 4

The Company wrote off outstanding trade payables for the years prior to 2019 as per the settlements with several vendors. The write off amount had been recorded under other income.

14. General and administrative costs

	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Salaries, consultants and benefits	$ 1,717	$ 1,421	$ 4,747	$ 4,540
Rent	19	413	284	1,485
Legal and audit	233	371	685	725
Other	613	599	1,579	2,056
Balance, end of period	$ 2,582	$ 2,804	$ 7,295	$ 8,806

15. Finance costs

	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Interest expense on senior notes	$ 7,095	$ 9,307	$ 34,151	$ 29,336
Interest expense on other loans	160	-	1,188	176
Redemption/yield maintenance premium	(293)	3,560	2,184	13,315
Financing related costs	311	105	321	254
Other interest expense	662	579	1,556	2,058
Other Interest expenses-leases	68	-	197	-
Unwinding of discounts on provisions	287	273	860	824
Balance, end of period	$ 8,290	$ 13,824	$ 40,457	$ 45,963

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.

	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Basic and diluted – Class "A" common shares	6,226,640,473	6,000,777,873	6,166,443,819	5,907,858,614
Loss per share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)

17. Financial instruments

17.1 Capital risk management

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

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

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

		September 30, 2019		December 31, 2018
Working capital deficiency	$	488,052	$	461,341
Shareholders' equity		201,204		251,953
Balance, end of period	$	689,256	$	713,294

The working capital deficiency of $488.1 million at September 30, 2019, includes the $263.1 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the nine months ended September 30, 2019.

17.2 Categories of financial instruments

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

		September 30, 2019				December 31, 2018		
		Carrying amount		Fair value		Carrying amount		Fair value
Financial assets								
Cash, prepaid expenses, deposits and trade and other receivables	$	11,118	$	11,118	$	17,248	$	17,248
	$	11,118	$	11,118	$	17,248	$	17,248
Financial liabilities								
Trade and accrued liabilities	$	223,703	$	223,703	$	183,137	$	183,137
Debt		275,468		275,468		295,452		295,452
	$	499,171	$	499,171	$	478,589	$	478,589

17.3 Currency risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which are denominated in US dollars, HK dollars and/or Chinese Renmibi. For the three and nine months ended September 30, 2019, the Company has a foreign loss of $3.3 million and a gain of $8.2 million compared to a $4.3 million gain and $8.2 million loss in the same periods in 2018. The changes in foreign exchange for the three and nine months ended September 30, 2019 are primarily due to the unrealized gain or loss on the translation of the US denominated 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 nine months ended September 30, 2019. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at September 30, 2019 would have been impacted by Nil and the carrying value of the debt at September 30, 2019 would have been impacted by $2.8 million. At September 30, 2019, the Company held approximately US $0.06 million or $0.08 million of cash, using the September 30, 2019 exchange rate of 1.3243, as cash in the Company's USD bank accounts.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at September 30, 2019 would have been impacted by Nil and the carrying value of the debt at September 30, 2019 would have been impacted by $0.12 million. At September 30, 2019, the Company held, after recent equity and bond closings, approximately HKD $2.13 million or $0.36 million using the September 30, 2019 exchange rate of 5.9198, as cash in the Company's HKD bank accounts.

For Chinese renminbi ("CNY") amounts, exchange rates to convert from Chinese renminbi to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at September 30, 2019 would have been impacted by approximately Nil and the carrying value of the debt at September 30, 2019 would have been impacted by $0.11 million. At September 30, 2019, the Company held approximately CNY $0.12 million or $0.02 million using the September 30, 2019 exchange rate of 5.3967, as cash in the Company's CNY bank accounts.

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Unrealized foreign exchange loss/(gain) on translation of:				
U.S. denominated senior secured notes	$ 3,259	$ (4,403)	$ (7,766)	$ 7,972
H.K. denominated loan	(55)	(48)	(762)	251
Foreign currency denominated cash balances	(31)	(238)	(297)	(14)
Foreign currency denominated accounts payable balances	58	360	429	140
	3,231	(4,329)	(8,396)	8,349
Realized foreign exchange loss/(gain)	77	(13)	218	(182)
Total foreign exchange loss/(gain)	$ 3,308	$ (4,342)	$ (8,178)	$ 8,167

17.4 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 September 30, 2019, the Company had negative working capital of $488.1 million and an accumulated deficit of $1,170.0 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 refinance current debt and access additional financing.

The timing of cash outflows relating to financial liabilities as at September 30, 2019, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	$ 223,703	$ 223,703	$ -
Debt[1]	275,468	275,468	-
Balance, end of period	$ 499,171	$ 499,171	$ -

1. Principal amount of Notes, loans and bonds based on the September 30, 2019 exchange rate of $1 US = 1.3243 CAD and $1HKD = $0.1689 CAD. Debt is due on demand.

18. Related party transactions

18.1 Trading transactions

For the nine months ended September 30, 2019, a consulting company, to which a director of Sunshine is related, charged the Company $0.40 million (September 30, 2018 – $0.45 million) for management and advisory services.

On March 25, 2019, the Company signed a supplementary agreement with Renergy Petroleum (Canada) Co., Ltd, owed by Mr. Kwok Ping Sun, regarding the proposed Amendment of the Joint Operating Agreements on Muskwa and Godin area oil sands leases.

As of September 30, 2019, Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,762,527,000 common shares of the Company that represents approximately 27.90% of the Company's outstanding common shares.

For the nine months ended September 30, 2019, the Company had obtained the loans from shareholders for HKD $66.0 million and CNY $2.1 million (approximately CAD $11.5 million in total) with the loan interest rate of 10% per annum, and required repayment in full by the end of the year of 2019

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:

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Directors' fees[1]	$ 103	$ 142	$ 378	$ 477
Salaries and allowances	642	261	1,961	1,474
Share-based compensation	343	500	1,014	1,189
	$ 1,088	$ 903	$ 3,353	$ 3,140

1. For the period ended September 30, 2019, this number reflects accrued director's fees of $0.4 million (2018 - $0.5 million). Refer to the appendix A2 for additional director fees disclosure.

19. Commitments and contingencies

As at September 30, 2019, the Company's commitments are as follows:

	Total	2019	2020	2021	2022	2023	Thereafter
Repayment of debt[1]	$ 263,064	263,064	-	-	-	-	-
Interest payments on debt[2]	9,344	6,577	-	2,767	-	-	-
Redemption premium[3]	-	-	-	-	-	-	-
Loans and bonds[4]	26,241	12,404	-	13,837	-	-	-
Equipment and contracts	985	229	247	247	132	104	26
Lease rentals[5]	5,672	594	1,399	1,399	1,256	316	708
Office leases	1,835	267	918	617	33	-	-
	$ 307,141	283,135	2,564	18,867	1,421	420	734

1. Principal amount of Notes based on the period end exchange rate of $1US=$1.3234 CAD and a maturity date of August 1, 2019. The Company is in negotiation with the noteholders on further forbearance.
2. Based on 10% on principal amount and a maturity date of August 1, 2019 less the interest accrued to September 30, 2019 at the period end exchange rate of $1USD = $1.3243 CAD. 2.5% forbearance fees ceased effective on Oct 31, 2018.
3. Based on "FRAA" Oct 31, 2018, 7.298% YMP ceased effective on Oct 31, 2018.
4. Principal of loans and its interest (10% -20% on principal amount of the debt) based on the period exchange rate of $1 HKD = $0.1689 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. As September 30, 2019 no amounts have been accrued in the Consolidated Financial Statements 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.

The Company received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2019 municipal property taxes of $9.45 million. The Company was also charged with overdue penalties of $3.47 million. Since then the Company was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Company has commenced a judicial review to have tax notices issued by RMWB in 2016-2019 declared void. The Company believes that it has made adequate provision in the financial statements against this demand notice.

The Company is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Company's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company's view, some of these positions, if challenged may not be fully sustained on review. 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, as noted in note 8. At September 30, 2019, the Company had incurred $4.46 million (US $3.37 million equivalent using the period end exchange rate) in liens against them during the ordinary course of business.

20. Supplemental cash flow disclosures

Supplemental cash flow disclosures

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash provided by (used in):				
Trade and other receivables	$ (442)	$ 1,353	$ (2,746)	$ (68)
Prepaid expenses and deposits	2,941	(279)	834	(1,861)
Trade and other payables	(2,232)	1,169	2,760	1,149
	$ 267	$ 2,243	$ 848	$ (780)
Changes in non-cash working capital relating to:				
Operating activities				
Trade and other receivables	$ (442)	$ 1,353	$ (2,746)	$ (68)
Prepaid expenses and deposits	2,941	(279)	834	(1,861)
Trade and other payables	(3,346)	2,310	1,703	1,501
	$ (847)	$ 3,384	$ (209)	$ (428)
Investing activities				
Property, plant and equipment	$ (1,182)	$ (1,141)	$ (1,239)	$ (352)
Financing activities				
Shares issues – Debt settlement	2,296	-	2,296	-
	$ 267	$ 2,243	$ 848	$ (780)

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

	2019
Balance, December 31, 2018	$ 295,451
Changes in cash items -	
Proceeds of shareholder loans	12,845
Payment of shareholder loans	(1,243)
Proceeds of bonds	17,106
Payment of bonds	(16,514)
Changes in non-cash items -	
Unrealized loss / (gain) on senior notes foreign exchange	(7,766)
Unrealized loss / (gain) on other loans foreign exchange	(530)
Unrealized loss / (gain) on shareholder loan foreign exchange	(93)
Balance, September 30, 2019	$ 299,256

21. Subsequent events

On October 11, 2019, the Company entered into a settlement agreement for a total of 37,728,000 class "A" common shares at a price of HKD $0.063 per share for gross proceeds of HKD $2,376,846.73. On October 17, 2019 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of a partial trade payable with an independent third party.

22. Approval of Condensed Consolidated Interim Financial Statements

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors and authorized for issue on November 10, 2019.

Appendix to the Condensed Consolidated Interim Financial Statements (Unaudited)

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in these Condensed Consolidated Interim Financial Statements is as follows:

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

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

	September 30, 2019	December 31, 2018
Non-current assets		
Property, plant and equipment	$ 481,891	$ 492,288
Exploration and evaluation assets	270,038	269,218
Right-of-use assets	1,184	-
Swap loan	9,952	-
Amounts due from subsidiary	11,904	10,935
	774,969	772,441
Current assets		
Trade and other receivables	6,251	12,431
Prepaid expenses and deposits	2,874	2,881
Cash	1,298	451
	10,423	15,763
Current liabilities		
Trade and other payables	223,633	183,137
Other Liabilities	-	-
Amount due to subsidiary	2,677	2,761
Bonds	895	24,462
Shareholder loans	11,508	-
Senior notes	263,064	270,990
	501,777	481,350
Net current assets	(491,354)	(465,587)
Total assets less current liabilities	283,615	306,854
Non-current liabilities		
Swap Loan	9,952	-
Convertible bond	13,837	-
Lease liabilities	1,214	-
Provisions	49,193	48,739
	74,196	48,739
Net assets	$ 209,419	$ 258,115
Capital and reserves		
Share capital	$ 1,295,657	$ 1,293,379
Reserve for share-based compensation	75,559	74,531
Deficit	(1,161,797)	(1,109,795)
	$ 209,419	$ 258,115

Appendix to the Condensed Consolidated Interim Financial Statements (Unaudited)

A2. Directors' emoluments and other staff costs

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Directors' emoluments				
Directors' fees	$ 103	$ 142	$ 378	$ 477
Salaries and allowances	413	110	1,232	1,323
Share-based payments	343	500	1,014	1,189
	859	752	2,624	2,989
Other staff costs				
Salaries and other benefits	1,304	1,169	3,515	2,740
Share-based payments	-	(3)	14	80
	1,304	1,166	3,529	2,820
Total staff costs, including directors' emoluments	2,163	1,918	6,153	5,809
Less: staff costs capitalized to qualifying assets	-	-	-	-
	$ 2,163	$ 1,918	$ 6,153	$ 5,809