



阳光油砂
SUNSHINE OILSANDS LTD.

SUNSHINE OILSANDS LTD.
陽光油砂有限公司 *

*(a corporation incorporated under the Business Corporations
Act of the Province of Alberta, Canada with limited liability)*

Stock Code: 2012

Annual Report 2018



**For identification purpose only*

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SUMMARY OF AUDITED FINANCIAL FIGURES

As at and for the year ended December 31	2018 (\$000s)	2017 (\$000s)	2016 (\$000s)	2015 (\$000s)	2014 (\$000s)
Cash and cash equivalents	583	3,671	13,635	6,545	136,097
Current restricted cash and cash equivalents	—	—	—	14,389	23,467
Non-current restricted cash and cash equivalents	—	—	—	—	11,601
Exploration and evaluation assets	269,218	268,227	291,716	290,945	379,403
Property, plant and equipment	492,815	507,416	684,531	650,930	701,736
Total liabilities	527,328	428,787	390,135	369,083	288,044
Shareholders' equity	251,953	356,569	607,455	604,098	972,016
Net loss	126,996	281,852	73,310	406,135	26,767
Net loss per share (\$ per basic and diluted share)	0.02	0.05	0.02	0.01	0.01

MESSAGE TO SHAREHOLDERS

In 2018, Sunshine (the “Company”) continued to focus on evaluating and developing its oil sands assets.

For three and twelve months ended December 31, 2018, the Company’s average bitumen production was 1,059 bbls/day and 1,623 bbls/day respectively. Diluent was blended at a 20.0% and 18.1% volumetric rate for the three and twelve month ended December 31, 2018 with the bitumen as part of the production process to create the marketable “Dilbit” blend product. The average Dilbit sales volume was 1,441 bbls/day and 2,018 bbls/day for the three and twelve months ended December 31, 2018. Both production and sales in the fourth quarter were impacted by the lower sales nominations resulting from temporarily constrained pipeline capacity and planned bitumen production reduction due to the low WCS price.

SUNSHINE’S CAPITAL RAISING ACTIVITIES

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 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.

MESSAGE TO SHAREHOLDERS

SUMMARY OF FINANCIAL FIGURES

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

(Canadian \$000s)	December 31, 2018	December 31, 2017
Cash	583	3,671
Trade and other receivables	13,457	4,932
Prepaid expense and deposits	3,208	1,110
Exploration and evaluation assets	269,218	268,227
Property, plant and equipment	492,815	507,416
Total liabilities	527,328	428,787
Shareholders' equity	251,953	356,569

For the fourth quarter of 2018, the Company had a net loss of \$46.7 million, compared to \$228.4 million for the same period in 2017, representing a net loss per share for each respective year of \$0.01 and \$0.04. For the year ended December 31, 2018, the Company had a net loss of \$127.0 million compared to \$281.9 million for the year ended December 31, 2017, representing a net loss per share for each respective year of \$0.02 and \$0.05.

RESERVES AND RESOURCES

On March 18, 2019, the Company announced the results of its reserves and resources evaluations, effective as at December 31, 2018. For a full discussion of the Company's reserves and resources data and other oil and gas information, see section "Statement of Reserves Data and Other Oil and Natural Gas Information" and "The Company's Contingent Resources Data" in Appendix "A" of the Company's Annual Information Form (AIF) for the year ended December 31, 2018, a copy of which is available on the SEDAR website at www.sedar.com.

Reserves and resources evaluations, dated December 31, 2018, were completed by independent evaluators, GLJ Petroleum Consultants Ltd. and Boury Global Energy Consultant Ltd. The following tables summarize the overall reserves information as well as contingent resource volumes.

	Reserves (Bitumen)					
	Proved (1P)		Proved Plus Probable (2P)		Proved Plus Probable Plus Possible (3P)	
	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)
Total	77	40	263	393	373	1,060

MESSAGE TO SHAREHOLDERS

In 2018, West Ells, the Company's first SAGD commercial project was in early production mode. The volume of West Ells Proved Reserves was therefore revised for production of bitumen during the year. In the 2018 GLJ report, the forecasted Canadian heavy oil price was similar to 2017's pricing assumptions. For this reason, the assessment of Thickwood was still sub economic. As a result, there were no reserves and contingent resources volumes reported. In 2018, the properties that had assigned reserves volumes were West Ells and Legend Lake. No exploratory or development wells were completed by the Company in 2018.

The Company's total assessed Best Estimate Risked Contingent Resources (Development Pending, Development Unclarified and Development On Hold) as at December 31, 2018 are as follows:

Sub Class	Best Estimate Risked Contingent Resources Gross (MMbbls)
Total Development Pending	83
Total Development on Hold	149
Total Development Unclarified	721

Values assigned to Sunshine's Best Estimate Risked Contingent Resources were similar to 2017.

2019 OUTLOOK

Sunshine sees a brightening outlook as international oil prices stabilize and steadily increase. The Company will continue to focus on cost controls and on carefully improving production performance as SAGD chambers mature, which will increase production at West Ells.

ACKNOWLEDGEMENTS

We would like to thank our Board of Directors, our staff and our stakeholders for their continuing support in advancing our corporate initiatives during a challenging commodity price cycle. We intend to ensure that Phase 1 West Ells facilities operate efficiently and achieve nameplate capacity. At the same time, we are continuing with efforts to secure capital to support existing operations and to fund our Phase II expansion plans in West Ells and in our other project areas.

"Kwok Ping Sun"

Chairman of the Board

"Gloria Ho"

Executive Director, CFO

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE CHAIRMAN AND DIRECTOR

Mr. Kwok Ping Sun (“Mr. Sun”), aged 54, is an Executive Chairman and Executive Director appointed by the Board on June 28, 2015. He was appointed as a Non-Executive Director by the Board on May 27, 2015. Mr. Sun is the founder of Nobao Renewable Energy Holdings Limited (“Nobao”) and has served as the Chairman of the Board, Director and Chief Executive Officer of Nobao since its inception in 2007. Prior to founding Nobao, Mr. Sun was the General Manager of Shanghai Nobao Electric Appliance Co., Ltd from 2005 to 2007. In 2003, Mr. Sun started his own research and development with respect to ground source heat pump (GSHP) systems and gained over 10 years of experience in this area. From 1999 to 2002, Mr. Sun served as the General Manager of Dynamic Co., Ltd of Denmark and was responsible for developing wind power projects in China in cooperation with Chinese local companies. From 1994 to 1998, Mr. Sun was the Chief Executive Officer of Wu Fong Investment Co., Ltd of Denmark. Between 1983 and 1990, Mr. Sun worked as an Official of the customs department, the publicity department and the foreign trade bureau of the City Government of Zhangjiagang, Jiangsu Province, People’s Republic of China. Mr. Sun has over 20 years of experience in automated control systems through his experiences described above as well as his experience as the General Manager of Jiangsu Zhongwang Electronics Co., Ltd. between 1990 and 1993 and as an Engineer of Zhangjiagang Radio Factory between 1979 and 1982. Mr. Sun graduated from Suzhou Transportation Vocational College in 1985 and received an EMBA degree from Tsinghua University in 2006.

NON-EXECUTIVE VICE CHAIRMAN AND DIRECTOR

Mr. Michael J. Hibberd (“Mr. Hibberd”), aged 63, has been a Non-Executive Vice-Chairman and a Non-Executive Director since June 28, 2015. He was Executive Vice-Chairman of the Company from November 28, 2014 to June 28, 2015. He was Executive Chairman from June 25, 2014 to November 28, 2014 and was Executive Co-Chairman of the Company from October 6, 2008 to June 25, 2014. Mr. Hibberd was a founder of the Company and held the title of Chairman and Co-CEO from May, 2007 to October 6, 2008. Mr. Hibberd is President and CEO of MJH Services Inc., a corporate finance advisory company established in January 1995. Mr. Hibberd has extensive international energy project planning and capital markets experience. Prior to January 1995, Mr. Hibberd spent 12 years with ScotiaMcLeod. Mr. Hibberd worked in corporate finance in Toronto and Calgary and held the position of Director and Senior Vice-President, Corporate Finance. Mr. Hibberd is currently Chairman of Canacol Energy Ltd. (TSX and Bolsa de Valores de Colombia) and Greenfields Petroleum Corporation (TSX Venture Exchange). He is a director of Montana Exploration Corp., PanOrient Energy and PetroFrontier Corp., all of which are listed on the TSX Venture Exchange. Mr. Hibberd was previously Chairman of Heritage Oil Plc and Heritage Oil Corporation. He was also director of Challenger Energy Corp., Deer Creek Energy Limited, Iteration Energy Ltd., Zapata Energy Corporation, Sagres Energy Inc. and Rally Energy Corp. Mr. Hibberd obtained his BA in 1976 and his MBA in 1978 from the University of Toronto. He obtained his LLB from University of Western Ontario in 1981, was called to the bar in 1983 and is a member of The Law Society of Upper Canada.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Ms. Gloria Pui Yun Ho (“Ms. Ho”), age 38, became an Executive Director on June 27, 2017. She was appointed as Chief Financial Officer of the Company from November 2016. Ms. Ho has extensive experience in investment, risk management, corporate banking and finance. Prior to joining the Company, she worked in equity research, credit analysis, capital strategy, funds management and auditing in several international institutions and most recently as the Chief Executive of a reputable Chinese-based asset management firm.

Ms. Ho is a Chartered Accountant, Certified Public Accountant, Chartered Financial Analyst and Chartered Alternative Investment Analyst. Ms. Ho holds a postgraduate certificate in Financial Engineering at Stanford University and a M.Sc. in Finance at the University of Illinois at Urbana-Champaign.

NON-EXECUTIVE DIRECTORS (“NEDs”)

Mr. Hong Luo (“Mr. Luo”), aged 56, re-designed as Non-Executive Director on March 19, 2018. He was appointed as an Executive Director since July 17, 2015 and as the Chief Executive Officer during the period from July 17, 2015 to September 1, 2017 and was appointed as a Non-Executive Director of the Company from November 28, 2014 to July 16, 2015. Mr. Luo has 34 years’ experience in the oil and gas industry. Previously he was Executive Vice President of Sinopec Canada Energy Ltd. from February 2012 to July 2015. Prior to joining Sinopec Canada Energy Ltd., Mr. Luo was Director of Strategy and Planning at Sinopec International Petroleum Exploration and Production Corporation (SIPC) from September 2009 to January 2012. From May 2008 to August 2009, Mr. Luo was President of West Africa and Asia-Pacific Exploration and Production Projects and from May 2007 to April 2008, he served as Director of Exploration of SIPC. Mr. Luo was Vice President of the First International Oil Company of SIPC in Kazakhstan from April 2006 to April 2007 and, from April 2004 to March 2006, Mr. Luo was Exploration Manager of Saudi Sinopec Gas Co. (Saudi Arabia). Prior to 2004, Mr. Luo held executive leadership positions in Northwest Oil Company’s business units of Sinopec in China, serving in many executive capacities and in numerous geological, engineering, operational and planning roles throughout northwest China and the Tarim Basin. Mr. Luo holds a Bachelor of Geology from the University of Science and Technology of Chengdu, China.

Ms. Linna Liu (“Ms. Liu”), aged 41, is a Non-Executive Director appointed by the Board on April 6, 2017. Ms. Liu is currently Head of Special Situation Investment Division of Bank of China Group Investment Limited (“BOCGI”). Prior to joining BOCGI, from 2000 to 2015, Ms. Liu held a number of positions in Bank of China Headquarters and in its New York Branch. Ms. Liu has over 18 years of experience in Banking and Financing. Ms. Liu graduated from Peking University and Columbia University and holds Bachelors and Master degrees.

Ms. Xijuan Jiang (“Ms. Jiang”) age 53, became a Non-Executive Director on June 30, 2016. She was a senior engineer with 26 years of experience in industrial applications. Ms. Jiang is the recipient of numerous design awards, primarily in respect of heating and ventilation systems. Ms. Jiang has been the Vice President and Chief Engineer of Nuoxin Energy Technology (Shanghai) Co. Ltd. since November 2012. Prior thereto, she was the Chief Engineer (Water and Sewer) at the Architecture Branch of Shougang Design Institute. Ms. Jiang obtained a Bachelor degree from the Xi’an University of Architecture and Technology in 1988.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDs”)

Mr. Raymond Shengti Fong (“Mr. Fong”), aged 72, is an Independent Non-Executive Director appointed on May 9, 2007. Mr. Fong has over 32 years of experience in the oil and gas industry. Mr. Fong is currently an Executive Director of Palinda International Group Limited. He held previous directorships with China Coal Corporation, Abenteuer Resources Ltd., Stealth Ventures Ltd., Zapata Capital Inc., was director and president of Ultra Capital Inc. and a former director of United Rayore Gas Ltd. Mr. Fong obtained a Bachelor of Science degree from the Taiwan Cheng Kung University in 1970, and a Master of Science degree from the Tennessee Technological University in 1971. Mr. Fong is a registered professional engineer in both Ontario and Alberta, Canada.

Ms. Joanne Yan (“Ms. Yan”), age 61, is an Independent Non-Executive Director appointed on June 30, 2016. Ms. Yan has over 20 years of experience advising, directing and managing publicly listed companies in North America. She has been a leading director, a corporate governance committee chair and audit committee member of numerous companies listed on the TSX Venture Exchange and the TSX. She also has been active in the cross border investment and M&A space and is familiar with the business culture and operations of North American and Chinese businesses.

Since September 1994, Ms. Yan has been President of Joyco Consulting Services Inc., a wholly-owned private company based in Vancouver, BC, providing business consulting services particularly with respect to mergers and acquisitions and related public and private financings. Ms. Yan is currently a director of Hanwei Energy Services Corp., a TSX listed company that manufactures and sells high-pressure fibreglass reinforced plastic pipes for international oil & gas and infrastructure industries in addition to producing oil & gas in Canada. From June 2006 to November 2013, Ms. Yan was the President and a director of Brazil Resources Inc. (formerly, Brazilian Gold Corp.), a resource exploration company with international scope, which is listed on the TSX Venture Exchange (trading symbol BRI). Ms. Yan was a director of Grande West Corp. from November 2013 to May 2014, Archer Petroleum Corp. from April 2013 to October 2014 and New Era Minerals Inc. from June 2014 to April 2016.

Mr. Yi He (“Mr. He”), age 46, is an Independent Non-Executive Director appointed on June 30, 2016. He has worked in the financial industry for more than 23 years and held various senior management roles in several global banks in China. In 2012, Mr. He was appointed as Chief Executive Officer of Nomura China Bank and led all China related banking businesses. From 2008 to 2012, he was in charge of China related banking business for Barclays Bank as the General Manager of the Shanghai Branch. Prior thereto, Mr. He led the global markets business for Australia and New Zealand Banking Corporations Limited and was the Deputy General Manager of ANZ China. Mr. He began his career with Credit Agricole China in 1994 and joined First Sino Bank as the Head of Treasury in 1997.

Mr. He has been an independent non-executive director of Kai Yuan Holdings Limited (SEHK code: 01215) since 2011 and is member of the audit committee, the remuneration committee, and the nomination committee of Kai Yuan Holding Limited Company.

Mr. He founded Yaoxin Asset Management Company in early 2015, which mainly focuses on financial related consulting. In addition, Mr. He holds a Master Degree in Economics from Fudan University of China and also is a Certified Professional Accountant in China.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of the Company is pleased to present this Corporate Governance Report for the year ended December 31, 2018. The Company and the Board are committed to maintaining high standards of corporate governance. The Company and the Board recognize that high quality corporate governance practices are fundamental to the effective and transparent operation of a company and its ability to protect the rights of its shareholders and enhance shareholder value.

Since March 1, 2012 (the “Listing Date”), the Company has been in compliance with the Corporate Governance obligations under the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”) save as discussed below. The Company confirms its compliance with the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules for the financial year 2018, save as:

- 1) On May 7, 2018, Mr. Qiping Men resigned as Chief Executive Officer (“CEO”) of the Company. Mr. Kwok Ping Sun, the Executive Chairman, assumed direct responsibility for all CEO tasks and functions since then. The Company deviated from Code provision A.2.1 as it requires that the chairman and chief executive officer should be separate and should not be performed by the same individual. Until September 1, 2018, the Board appointed Mr. Horst Wolfgang Wunschelmeier as CEO, the Company complied with the Code A.2.1 again.
- 2) The Company has not entered into formal letters of appointment with its Directors since its Listing Date and therefore has deviated from Code Provision D.1.4 of the Code. Though the Company has deviated from Code Provision D.1.4, each of the Directors will be elected on an annual basis at each annual general meeting, which is consistent with market practice in Canada.
- 3) Mr. Hong Luo (non-executive Director), Ms. Linna Liu (non-executive Director) and Mr. Raymond Shengti Fong (independent non-executive Director) were unable to attend the annual general meeting of the Company held on June 25, 2018 (the “AGM”) due to other important engagement at the relevant time. Their absences at the AGM deviated from Code provision A.6.7 which stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and variety of backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings to gain and develop a balanced understanding of the views of shareholders. Notwithstanding, Chairman of the Board and members of other Board committees of the Company attended the said AGM.

The Board has established audit committee, corporate governance committee, compensation committee and reserves committee for overseeing particular aspects of the Company’s affairs. All Board committees are established with defined written terms of reference which are posted on the Company’s website and are available to shareholders upon request. Meetings of the Board committees generally follow the same procedures as for meetings of the Board.

The Company has, throughout the year ended December 31, 2018, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and Listing Rules. The Company’s current practices are reviewed and updated regularly to ensure high quality corporate governance.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence in accordance with the newly revised and effected Rule 3.13 of the Listing Rules and the Company considers that all of the independent non-executive Directors are independent. The Board is of the view that all the independent non-executive Directors are independent and have appropriate professional qualifications or accounting or related financial management expertise in accordance with Rule 3.10 of the Listing Rules. As at the date of this Annual Report, no INED has served the Company for more than 9 years.

There are no interrelationship, including financial, business, family or other materials/relevant relationship(s) between all Board members, and also, in particular, between the Chairman and the chief executives of the Company.

CORPORATE GOVERNANCE REPORT

The Board has established clear guidelines with respect to matters that must be approved or recommended by the Board, including, without limitation, the approval and adoption of the Company's operating budget and capital expenditure budget; the hiring or dismissal of the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary or certain other members of the Company's senior management team; and approving and recommending significant transactions. The day-to-day management administration and operation of the Company are delegated to the Chief Executive Officer and senior management of the Company.

The Company has arranged appropriate insurance coverage in respect of potential legal actions against its Directors and senior management.

As at the date of this Annual Report, the Board consists of the following members:

Executive Directors ("ED")

Mr. Kwok Ping Sun (Chairman)

Ms. Gloria Pui Yun Ho (Chief Financial Officer)

Non-Executive Directors ("NED")

Mr. Michael J. Hibberd (Vice-Chairman)

Mr. Hong Luo (*re-designated as non-executive Director on March 19, 2018*)

Ms. Xijuan Jiang

Ms. Linna Liu

Independent Non-Executive Directors ("INED")

Mr. Raymond S. Fong

Ms. Joanne Yan

Mr. David Yi He

Practices and Conduct of Meetings

Notice of regular Board meetings is given to all Directors at least fourteen days in advance and reasonable notice is generally given for other Board meetings. Annual meeting schedules and the draft agendas for each meeting are normally made available to Directors in advance. Arrangements are in place to allow Directors to include items in the agenda. Final agendas and board papers are sent to Directors at least seven days before each regular Board meeting so that the Board can make informed decisions on matters placed before it. Each Director also has separate and independent access to senior management where necessary. Regular Board meetings will be held at least four times a year at approximately quarterly intervals.

Minutes of the Board and committee meetings are kept by the Board Secretary and are open for inspection by Directors anytime. All Directors are properly briefed on issues arising at Board meetings. In addition to executive Directors, independent non-executive Directors and other non-executive Directors are encouraged to make positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. Upon reasonable request, Directors are enabled to seek independent professional advice at the expenses of the Company.

If a Director and/or any of his associate has a material interest in a transaction, the matter must be dealt with by physical Board meeting and that Director is required to disclose his interest and to abstain from voting and not to be counted in the quorum at the meeting for approving the transaction.

The Chairman holds meetings with the independent non-executive Directors at least annually without the presence of other Directors.

CORPORATE GOVERNANCE REPORT

Appointment and Election of Directors, Board Diversity

The Company has a formal and transparent procedure for the identification of nominees for Directors and recommendation to the Board, which is led by the corporate governance committee (the “CG committee”).

The Board believes that diversity of experience, professionally and geographically, enhances its decision-making ability. The Company has adopted a Board Diversity Policy (the “BD Policy”) with the aim of enhancing the Board’s effectiveness and corporate governance as well as achieving business objectives. The BD Policy is available on the website of the Company for public information.

In designing the Board’s composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. All Board appointments will be based on merits and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The CG committee is responsible for monitoring the achievement of the measurable objectives set out in the BD Policy. It will review the Board’s composition at least once annually taking into account the benefits of all relevant diversity aspects and adhere to the BD Policy when making recommendation on any Board appointments. As at the date of this Annual Report, the Board has 9 experts covering the areas of new energy, mechanical engineering, geology, investment, audit, accounting, corporate finance, banking, financial services and law. The CG committee considers that such compositions serve the purpose of enhancing the quality of the Company’s business performance and operation strategy and it will make recommendation to the Board as and when it considers necessary.

The CG committee also reviews the BD Policy, if applicable and as appropriate, to ensure its effectiveness. The CG committee will discuss any revisions to the BC Policy that may be required, and recommend any change revisions to the Board for consideration and approval.

Nominees for Directors are elected to hold office until the next annual general meeting of the Company or until his successor is duly elected or appointed, unless his office is vacated earlier, in accordance with the Articles of Incorporation and By-laws of the Company.

The term of appointment of all Directors, including non-executive Directors, is from the time of election at the annual general meeting of shareholders to the following annual general meeting; at which point the Director must be re-elected. Each Director was re-elected at that annual general meeting and is subject to re-election. Details of the appointment and election of Directors are set out in the “Directors and Senior Management” section of this Annual Report.

Induction and Ongoing Development

Each newly appointed Director receives a comprehensive and tailored induction to ensure his or her understanding of the business and operations of the Company and awareness of a director’s responsibilities and obligations. Directors are continually updated on statutory, regulatory and business developments and participate in continuous professional development in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities and to develop and refresh their knowledge and skills.

CORPORATE GOVERNANCE REPORT

COMMITTEES OF THE BOARD

The Board is responsible for leadership and promoting the success of the Company by directing and overseeing the Company's affairs. In addition, the Board is responsible for overseeing the corporate governance and financial reporting of the Company, reviewing the effectiveness of the Company's system of risk management and internal controls. To assist it in fulfilling its duties, the Board has established four board committees: (1) the audit committee; (2) the compensation committee; (3) the corporate governance committee, and (4) the reserves committee.

Audit Committee

The Board established an audit committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee, which have been revised from time to time since then. The audit committee currently consists of three members, namely Ms. Joanne Yan (Chairperson of the audit committee and INED), Mr. Yi He (INED) and Mr. Raymond S. Fong (INED).

In compliance with Rule 3.21 of the Listing Rules, at least one member of the audit committee possesses appropriate professional qualifications in accounting or related financial management expertise in discharging the responsibilities of the audit committee.

All members have sufficient experience in reviewing audited financial statements as aided by the independent external auditors of the Company whenever required.

The primary duties of the audit committee are to review and supervise the Company's financial reporting process, risk management and internal control systems, to monitor the integrity of the Company's financial statements and financial reporting, and to oversee the audit process.

There were several meetings of the audit committee held during the year ended December 31, 2018. The following is a summary of the work performed by the audit committee during 2018:

- reviewed the scope of the audit of the consolidated financial statements of the Company for the year ended December 31, 2018, as well as the fee proposal for such audits;
- reviewed the condensed interim consolidated financial statements for the periods ended March 31, 2018, June 30, 2018 and September 30, 2018, respectively;
- reviewed the assessment of the design and testing of the effectiveness of the Company's internal control systems and risk management as performed by the external consultant;
- reviewed capital budgets as presented by senior management on a quarterly basis; and
- reported to the Board on the meetings of the audit committee.

During the year under review, the audit committee also performed duties in connection with the proposed re-appointment of independent external auditors, the review of the Company's relationship with its independent external auditors, and the review of its systems for financial reporting, internal controls and risk management.

Corporate Governance Committee

The Board established a corporate governance committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee, which have been revised from time to time since then. The corporate governance committee currently consists of five members, namely Mr. Kwok Ping Sun (Chairperson of the corporate governance committee and ED), Mr. Michael J. Hibberd (NED), Mr. Raymond S. Fong (INED), Mr. Yi (David) He (INED), and Ms. Joanne Yan (INED).

CORPORATE GOVERNANCE REPORT

The primary duties of the corporate governance committee in respect of nominations include, but are not limited to, making recommendations to the Board relating to the appointment or re-appointment of Directors and senior officers, succession planning for Directors, in particular the Executive Chairman, the non-executive Vice-Chairman, Chief Executive Officer, Chief Financial Officer and assessing the independence of independent non-executive Directors. Further, the corporate governance committee has certain duties in respect of other corporate governance matters, including, to consider, develop and review the Company's corporate governance principles, practices and processes and to make recommendations to the Board, to develop, review and monitor the training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to review and monitor the code of conduct and compliance manual applicable to employees and directors and to review the Company's compliance with the Code as set out in the Listing Rules. Going forward, the corporate governance committee is expected to meet at least once a year to discharge its responsibilities.

Whenever a resolution to elect an individual as an independent non-executive Director at the general meeting, details of the process used for identifying the individual and the reasons for the Board to believe the individual should be elected and why it considers the individual to be independent; the perspectives, skills and experience that the individual can bring to the Board; and how the individual contributes to the diversity of the Board would be set out in the circular to the shareholders accompanying the notice of the relevant general meeting.

The corporate governance committee is chaired by the Executive Chairman and is comprised of one non-executive Director and three independent non-executive Directors. The Company is of the view that the current members of the corporate governance committee are influential and important in setting the key direction of the Company at this time. The Company also encourages all Board members to sit on at least one of the Company's committees. The expertise of the current members of this committee is important to the Company.

Compensation Committee

The Company established a compensation committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee. The compensation committee currently consists of three members, namely Mr. Kwok Ping Sun (Chairperson of the compensation committee and ED), Mr. Raymond S. Fong (INED) and Ms. Joanne Yan (INED). The compensation committee currently consists of a majority of independent non-executive Directors and is chaired by an executive Director.

The primary duties of the compensation committee are to determine the policy for the remuneration of the executive Directors, to assess performance of the executive Directors, to approve the terms of the executive Directors' service contracts, to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, as well as to determine the specific remuneration packages of all executive Directors and certain members of senior management of the Company.

Reserves Committee

The Company established a reserves committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee. The reserves committee currently consists of three members, namely Mr. Raymond S. Fong (Chairperson of the reserves committee and INED), Mr. Kwok Ping Sun (ED) and Mr. Yi He (INED).

The primary duties of the reserves committee include, but not limited to, reviewing and approving management's recommendation for the appointment of independent evaluators, reviewing procedures for providing information to the independent evaluators, meeting with management and the independent evaluators to review the reserves data and reports, recommending to the Board whether to accept the content of the independent evaluators' report, reviewing procedures for reporting on other information associated with oil sands producing activities and generally reviewing all public disclosure of estimates of reserves.

CORPORATE GOVERNANCE REPORT

The reserves committee meets at least once annually to review procedures relating to the disclosure of information with respect to oil and gas activities, including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities requirements.

All the aforesaid Board committees make available their terms of reference explaining its role and the authority delegated to them by the Board on the Hong Kong Stock Exchange's website and the Company's website. All Board committees are provided sufficient resources to perform its duties. Where necessary, the committees members could seek independent professional advice, at the Company's expense, to perform their responsibilities.

MEETINGS OF THE BOARD AND COMMITTEES OF THE BOARD

There were 10 meetings of the Board held during the year ended December 31, 2018. The following is the attendance record of the Board and committee meetings held during the year, which can be attended either in person or through electronic means of communication:

2018	Board of Directors	Reserves Committee	Audit Committee	Compensation Committee	Corporate Governance Committee
Directors at December 31, 2018					
Kwok Ping Sun ¹	8/10	-	-	2/2	1/1
Michael Hibberd	10/10	-	-	-	1/1
Hong Luo	9/10	-	-	-	-
Linna Liu	10/10	-	-	-	-
Xijuan Jiang	10/10	-	-	-	-
Gloria Ho	10/10	-	-	-	-
Jeff Jingfeng Liu ²	8/10	1/1	4/4	-	-
Raymond Fong	10/10	1/1	4/4	2/2	1/1
Joanne Yan	10/10	-	4/4	2/2	1/1
Yi He ³	10/10	-	4/4	-	1/1
2018 Former Directors					
Qiping Men ⁴	5/5	1/1	-	-	-

Notes:

1. Mr. Kwok Ping Sun was appointed as chairman of Reserves Committee on May 7, 2018 until June 30, 2018, upon which, Mr. Raymond Fong was appointed as chairman of Reserve Committee. He continued to serve as a member until now. Upon to the date of this Annual Report, no Reserves Committee meeting was held since his appointment.
2. Mr. Jeff Liu ceased his directorship and all other offices in the Company on March 19, 2019.
3. Mr. Yi He was appointed as a member of the Reserves Committee on March 19, 2019.
4. Mr. Qiping Men ceased to be a Director on May 7, 2018. During his tensure of service in the financial year 2018, five Board meetings and one Reserve Committee meeting were held.

CORPORATE GOVERNANCE REPORT

HEALTH, SAFETY AND ENVIRONMENT (“HSE”)

Sunshine executives and management believe in the HSE principle of “Safety First” and the Company has a good safety record. In 2018, the Company continued to emphasize improvements in the field safety monitoring system for preventing workplace injuries. We are committed to protecting and promoting the safety and well being of our employees, contractors, communities and the environment. We aim for safe and reliable operations where any risks which compromise the health and safety of workers are identified and addressed.

The Board also reviews and assesses the Company’s health, safety and environment processes and controls.

SHAREHOLDER COMMUNICATION POLICY

The Company introduced a shareholder communication policy on April 1, 2012 in compliance with Code Provision E.1.4.

REMUNERATION OF DIRECTORS

The following is a general description of the emolument policy of the Company, as well as the basis of determining the emoluments payable to the Directors.

The compensation of Directors is determined by the Board, which receives recommendations from the compensation committee.

Under our current compensation arrangements, each of our EDs, NEDs, INEDs and senior management are eligible to receive compensation in the form of cash and/or bonuses and are eligible to receive option grants.

As at the date of this Annual Report, the Company does not have any employee long-term incentive plans. If the Company decide to establish any such plans in the future, recommendations from the compensation committee will be taken into account and such plans will comply with applicable provisions of the Listing Rules.

Remuneration of the Directors (including retainers, fees, salaries, discretionary bonuses, and other benefits including share based payments) was approximately \$7.0 million for the year ended December 31, 2018 (2017 - \$7.2 million).

Please refer to the Audited Consolidated Financial Statements as included in this Annual Report for additional details on remuneration of Directors.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted its own policy (the “Corporate Disclosure and Trading Policy”) for securities transactions by Directors and employees who are likely to be in possession of unpublished price-sensitive information of the Company. This policy is no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry of all Directors, the Board confirmed the Directors have complied with the Corporate Disclosure and Trading Policy during the accounting period covered by this Annual Report.

The interests of Directors’ and Chief Executive Officer in the Company’s Common Shares as at December 31, 2018 are set out in the “Directors’ Report” section of this Annual Report.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The auditors' statement about their reporting responsibilities for the Company's consolidated financial statements is set out in the Independent Auditor's Report included in this Annual Report.

The fees in relation to the audit and related services for the year ended December 31, 2018 provided by PricewaterhouseCooper LLP, the independent external auditors of the Company, were as follows:

Nature of services rendered	Fees paid/ payable
Total audit and audit-related services	\$ 258,000
Others	12,500
Total	<u>\$ 270,500</u>

Audit fees were incurred in connection with the following services:

- Audit of the Company's annual financial statements;
- Audit of the financial statements of Sunshine Oilsands (Hong Kong) Ltd.;
- Reviews of the Company's interim financial statements;
- Audit of tax compliance, tax advice, and tax planning; and
- Additional audit procedures related to the 2018 audit.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges that it holds responsibility for:

1. Overseeing the preparation of the financial statements of the Company with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Company; and
2. Selecting suitable accounting policies and applying them consistently with the support of reasonable judgment and estimates.

The Board ensures the timely publication of the financial statements of the Company. Management provides explanations and information to the Board to enable it to make an informed assessment of the financial and other information to be approved. The Board is responsible for ensuring that the Company keeps proper accounting records, for safeguarding the Company's assets and for taking reasonable steps for the prevention of fraud and other irregularities.

The Board strives to ensure a balanced, clear and understandable assessment of the Company's financial reporting, including annual and interim reports, other price-sensitive announcements, and other financial disclosures required under the Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirements and applicable accounting standards.

The Board is aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. For the year ended December 31, 2018, the Company reported a net loss of \$127.0 million (2017 - \$281.9 million). At December 31, 2018, the Company had a working capital deficiency of \$461.3 million (2017 - \$368.6 million) and an accumulated deficit of \$1,116.0 million (2017 - \$989.0 million). The Company's ability to continue as a going concern is dependent on continuing operation and development in West Ells, marketing bitumen blends at favorable prices, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board places great importance on evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring the Company establishes and maintains appropriate and effective risk management and internal controls systems. The Board would oversee management in the design, implementation and monitoring of the risk management and internal control systems.

The Company reviews and monitors the adequacy and effectiveness of risk management and internal control systems on an ongoing basis so as to ensure that Group's risk management and internal control systems has been conducted effectively. Since the Company does not have an internal audit function, the Company engaged an external consultant to complete testing of the design and effectiveness of its internal control systems for the year ended December 31, 2018. The audit plans are discussed and agreed to for each year with the audit committee of the Company.

Each year the audit committee and the Board reviews the overall effectiveness of the Company's risk management and internal control systems. The Board has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended December 31, 2018. In conducting such review, the Board has: (i) reviewed the Company's internal control activities during the year and discussed such activities and the results thereof with the Chief Executive Officer and Chief Financial Officer ; (ii) reviewed and discussed the scope and results of the annual audit with the Company's independent external auditors; and (iii) reviewed with management the results of the Company's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board is not aware of any material defects in the effectiveness of risk management and internal control systems. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

ANNUAL ASSESSMENT

A review of the effectiveness of the Company's risk management and internal control systems covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2018 was conducted with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Company's internal control system against the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The Company has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the audit committee and the Board.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company complies with the requirements of Securities and Futures Ordinance ("SFO") and the Listing Rules. The Group discloses insider information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbors as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Company would immediately disclose the information to the public. The Company is committed to ensuring that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balance way, which requires equal disclosure of both positive and negative facts.

BOARD SECRETARY

During the year ended December 31, 2018, the Board Secretary, who is an employee of the Company, has taken no less than 15 hours of relevant professional training and has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company strives to maintain a high level of transparency in its communications with shareholders and investors. The Company keeps a constant dialogue with the investment community through Company visits, conference calls and information sessions to communicate the Company's business strategies, developments and goals.

The Company's annual and interim reports, stock exchange filings, press releases and other information and updates on the Company's operations and financial performance are available for public access on the Company's website, www.sunshineoilsands.com, and certain of these documents are also available on the website of the SEHK, www.hkexnews.hk, and on the website of SEDAR, www.sedar.com.

INED's names are clearly identified in all corporate communications and an updated list of directors identifying their roles and functions are maintained on the websites of the Hong Kong Stock Exchange and the Company.

The Company has not made any changes to its constitutional documents during the year ended December 31, 2018.

The Company encourages its shareholders to attend the Company's general meetings to communicate their views and concerns to the Board directly so as to ensure a high level of accountability and also to stay informed of the Company's strategies, developments and goals. Detailed explanation about procedures for conducting a poll is provided in general meetings. Board members / committee members are welcome to answer questions at general meeting.

The next annual general meeting of shareholders of the Company was tentatively scheduled to be held in June 2019 in Hong Kong.

In January 2019, the Company adopted the "Dividend Policy" concerning the payment of dividends. Pursuant to which, the Board, when deciding whether to propose a dividend and in determining the dividend amount, it will take into account, among others, (a) the Group's operations and earnings; (b) the general financial conditions of the Group; (c) cash requirements and capital expenditures; (d) any restrictions on payment of dividends; and (e) any other factors that the Board may consider relevant, etc.

The declaration and payment of dividends by the Company shall be determined at the sole discretion of the Board and shall be subject to the Company's Articles of Incorporation and By-Laws, Business Corporations Act and any applicable laws, rules and regulations. The Dividend Policy will continue to be reviewed by the Board from time to time.

Details of the Dividend Policy are available on the websites of the Hong Kong Stock Exchange and the Company.

SHAREHOLDERS RIGHTS

Under the Business Corporations Act (Alberta) (the "ABCA"), the directors of a Company are authorized to call meetings of shareholders. The ABCA establishes two categories of meetings of shareholders: (i) annual meetings, and (ii) special meetings.

There are also specific circumstances in which shareholders may call special meetings where the directors fail to do so. Pursuant to the applicable provisions of the ABCA, registered or beneficial holders of not less than five per cent (5%) of the issued voting shares may requisition the directors to call a meeting of shareholders. If the directors do not call a meeting within 21 days after receiving the requisition, a shareholder who signed the requisition may call the meeting. The ABCA mandates that such shareholders be reimbursed for expenses incurred in requisitioning, calling, and holding the meeting unless the shareholders resolve otherwise at the meeting.

Shareholders are encouraged to consult their own tax advisors regarding the tax consequences to them for share transactions.

Shareholders can submit enquiries to the Board and the Chief Executive Officer by mail or by phone to the contact information set out in the "Corporate Information" section of this Annual Report.

DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present their report together with the audited consolidated financial statements of the Company and its wholly-owned subsidiaries for the year ended December 31, 2018 together with comparative figures for the corresponding period in 2017.

PRINCIPAL ACTIVITIES

The Company is engaged in the exploration for, and the development of, oil properties for the production of bitumen in the Athabasca oil sands region in Alberta, Canada.

BUSINESS REVIEW

The business review for the year and further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Company and its subsidiaries (the "Group") and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this Annual Report. The discussions in the Management Discussion and Analysis section form part of this Directors' Report.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's wholly-owned subsidiaries as at December 31, 2018, are set out in note 1 to the consolidated financial statements. The activities of the wholly-owned subsidiaries of the Company as at December 31, 2018 are set out in the table below:

Name	Country of Incorporation	Principal country of operation	Issued and fully paid share capital	Principal activities
Sunshine Oilsands (Hong Kong) Ltd.	Hong Kong, China	Hong Kong	HK\$100	Management services
Boxian Investments Limited	British Virgin Islands	Hong Kong	US\$1	Pursuing new investment opportunities
Sang Xiang Petroleum & Chemical (Shanghai) Limited	China	China	RMB\$100	Pursuing new investment opportunities

RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

The results of the Company for the financial year ended December 31, 2018 are set out in the consolidated statements of operations and comprehensive loss included in this Annual Report. The Board of Directors has not recommended, declared or paid any distributions for the financial year ended December 31, 2018.

SEGMENT INFORMATION

The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during the year ended December 31, 2018 are set out in note 6 to the consolidated financial statements.

DIRECTORS' REPORT

RESERVES

Details of movements in the Company's reserves during the year ended December 31, 2018 are set out in the consolidated statement of changes in shareholders' equity.

DISTRIBUTABLE RESERVES

As at December 31, 2018, reserves available for distribution to shareholders amounted to approximately \$252 million as shown in the statutory accounts of the Company and calculated in accordance with the Company's Articles of Incorporation.

DIVIDENDS

The Company has not declared or paid any dividends in respect of the year ended December 31, 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Incorporation, by-laws of the Company or the Alberta Business Corporations Act.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended December 31, 2018 are set out in the consolidated statement of changes in shareholders' equity in this Annual Report.

DIRECTORS

As at December 31, 2018 and up to the date of this Annual Report, the composition of the Board of Directors was as follows:

Executive Directors

Mr. Kwok Ping Sun (Chairman)
Ms. Gloria Pui Yun Ho (Chief Financial Officer)

Non-Executive Directors

Mr. Michael J. Hibberd (Vice-Chairman)
Mr. Hong Luo (re-designated as Non-Executive Director on March 19, 2018)
Ms. Xijuan Jiang
Ms. Linna Liu

Independent Non-Executive Directors

Mr. Raymond S. Fong
Ms. Joanne Yan
Mr. David Yi He
Mr. Jeff Jingfeng Liu (resigned on March 7, 2019)

DIRECTORS' REPORT

Updated biographical details of the Directors are included in this Annual Report in the section headed "Directors and Senior Management".

On January 1, 2018, Mr. Qiping Men, an Executive Director, was appointed as Chief Executive Officer but ceased directorship of the Company and all his offices in the Group on May 7, 2018.

Mr. Hong Luo was re-designated as non-executive Director on March 19, 2018.

Mr. Jeff Liu ceased directorship and all offices in the Company on March 7, 2019.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

On May 7, 2018, Mr. Kwok Ping Sun was assumed the position of Chief Executive Officer and Chairman of Reserve Committee of the Company upon the resignation of Mr. Qiping Men.

On June 30, 2018, Mr. Raymond Shengti Fong was appointed as Chairman of reserve committee of the Company.

Mr. Jeff Jingfeng Liu resigned on March 7, 2019 and he ceased to be a member of the reserve committee.

On March 19, 2019, the Board appointed Mr. Yi He as member of the reserve committee.

Ms. Joanne Yan ceased as a director of Avanco Corp.

Save as disclosed above and in the section headed "Directors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of the 2018 interim report of the Company.

Directors' Service Contracts

None of the Directors who are to be proposed for re-election at the forthcoming annual general meeting has or is proposed to have a service contract that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

Save for the related party transactions set out in note 19 to the consolidated financial statements and the transactions disclosed under the heading "Transactions with Related Parties" in the section entitled "Management Discussion and Analysis" of this Annual Report, no Director or a director of any entity connected with a Director has or had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company and its subsidiaries for the year ended December 31, 2018.

Indemnity and Insurance

Each of the directors of the Company has entered into an indemnity agreement with the Company. Pursuant to such indemnity agreements, among other things, the Company has agreed to indemnify such directors in connection with costs and expenses arising from claims relating to such director's service as a director of the Company or actions or omissions performed in such director's capacity as a director, provided that such director acted honestly and in good faith with a view to the best interests of the Company and, in the case of certain criminal or administrative actions, such director had reasonable grounds for believing that his conduct was lawful.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN COMMON SHARES AND SHARE OPTIONS

As at December 31, 2018, the interests and short positions of the Directors and the chief executive of the Company in the Common Shares and underlying shares of the Company and its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Common Shares

Name	Company	Nature of Interest	Number of Common Shares held	Approximate % interest in the Common Shares
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd.	Direct/Indirect	1,687,377,000	27.51%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	104,774,685	1.71%
Mr. Hong Luo ⁽¹⁾	Sunshine Oilsands Ltd.	N/A	—	—
Mr. Qiping Men ⁽²⁾	Sunshine Oilsands Ltd.	Direct	1,049,541	0.02%
Ms. Gloria Pui Yun Ho	Sunshine Oilsands Ltd.	N/A	—	—
Ms. Linna Liu	Sunshine Oilsands Ltd.	N/A	—	—
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	Direct/Indirect	300,000	0.00%
Mr. Raymond S. Fong	Sunshine Oilsands Ltd.	Direct/Indirect	9,250,621	0.15%
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	1,600,000	0.03%
Ms. Joanne Yan	Sunshine Oilsands Ltd.	N/A	—	—
Mr. Jeff Jingfeng Liu ⁽³⁾	Sunshine Oilsands Ltd.	Direct	600,000	0.01%

Notes

- Mr. Hong Luo was re-designated as non-executive Director on March 19, 2018.
- Mr. Qiping Men, an executive director, was appointed as Chief Executive Officer on January 1, 2018 and ceased all his offices and directorships in the Company and its Group on May 7, 2018.
- Mr. Jeff Jingfeng Liu ceased to be a Director on March 7, 2019.
- The above approximate % interests are calculated based on the Class "A" Common Shares of the Company in issue as at December 31, 2018 (i.e. 6,135,846,624 Shares).

SHARE OPTION SCHEME

Pre-IPO Stock Option Plan:

The Company's pre-IPO stock option plan is for Directors, officers, employees, consultants and advisors of the Company. These options vest over a period up to three years from the date of grant. Following the IPO closing on March 1, 2012, no further options were issued under the Pre-IPO Stock Option Plan. As at December 31, 2018, all Pre-IPO Stock Option have expired.

DIRECTORS' REPORT

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 and listing on the SEHK, March 1, 2012. The maximum number of 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 Common Shares, less the maximum aggregate number of Common Shares underlying the options ("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 May 7, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan will 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 (the "TSX") or the SEHK (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date.

On September 30, 2015, the Company completed a voluntary delisting from the TSX. As a result, the Board Directors now determines the exercise price of the Options based solely on the trading date of the Common Shares of the Company from the SEHK only.

The aggregate number of shares that may be issued under the Scheme is 601,359,617, representing 10% of Shares outstanding when the Scheme Mandate Limited was refreshed on October 31, 2018 (and representing approximately 9.80% of the Shares Outstanding as at the date of this report.)

Details of the Post-IPO Stock Option Plan are listed below:

Purpose of the Post-IPO Stock Option Plan:	The purpose of the Post-IPO Stock Option Plan is to attract skilled and experienced personnel, to incentivize them to remain with the Company and to motivate them to strive for the future development and expansion of the Company by providing them with the opportunity to acquire equity interests in the Company.
Participants:	Any Directors, officers and employees of the Company, the Company's subsidiaries and any other persons selected by the Board in its discretion.
Total number of securities available for issue under the scheme	491,005,881 (representing 8.0 % of the issued shares of the Company as at the date of the Annual Report)
Maximum entitlement of Participant:	The aggregate number of shares issued or to be issued to any one person under the Post-IPO Stock Option Plan at any time in any 12 month period (together with any shares underlying Options granted during such period under any other share option scheme) must not exceed 1% of shares issued and outstanding at the time, unless shareholder approval has been sought and obtained in accordance with the provisions of the Post-IPO Stock Option Plan (and with the person receiving such Option grant abstaining from voting).
Period within which the shares must be taken up under an Option:	The Option period shall not expire later than 10 years from the date of grant.
Minimum period, if any, for which an Option must be held before it can be exercised:	The minimum period can be in a range from immediately upon grant to two years.

DIRECTORS' REPORT

The amount payable, if any, on application or acceptance of the Option and the period within which payments or calls must be made or loans for such purposes must be paid: Not applicable.

Remaining life of the Post-IPO Stock Option Plan: The Post-IPO Stock Option Plan shall be valid and effective for the period commencing from January 26, 2012. There is currently no expiration date for the Post-IPO Stock Option Plan.

During the year 2018, save as the grant of an aggregate of 315,000,000 options (representing approximately 5.13% of the issued shares of the Company as at the date of the Annual Report) in respect of 315,000,000 Shares at an exercise price of HK\$0.236 (CDN\$0.40 equivalent) per Share on July 5, 2018, no other options were granted. The said 315,000,000 options are valid for five (5) years.

The accounting policy adopted for the granted Options above follows the policy adopted under the Post-IPO Stock Option Plan for calculating the exercise price.

As of December 31, 2018, the options held by Directors and the chief executive of the Company was as follows:

Stock Options

Name	Company	Nature of Interest	Number of Stock options held	Approximate % interest in the Options
Kwok Ping Sun ⁽¹⁾	Sunshine Oilsands Ltd.	Direct	346,679,000	70.61%
Michael Hibberd	Sunshine Oilsands Ltd.	Direct	46,679,000	9.51%
Hong Luo ⁽²⁾	Sunshine Oilsands Ltd.	Direct	23,000,000	4.68%
Gloria Ho ⁽³⁾	Sunshine Oilsands Ltd.	Direct	20,000,000	4.07%
Qiping Men ⁽⁴⁾	Sunshine Oilsands Ltd.	Direct	22,555,556	4.59%
Raymond Fong	Sunshine Oilsands Ltd.	Direct	2,500,000	0.51%
Yi He	Sunshine Oilsands Ltd.	Direct	2,500,000	0.51%
Joanne Yan	Sunshine Oilsands Ltd.	Direct	2,500,000	0.51%
Linna Liu	Sunshine Oilsands Ltd.	Direct	--	--
Jingfeng Liu ⁽⁵⁾	Sunshine Oilsands Ltd.	Direct	--	--
Xijuan Jiang	Sunshine Oilsands Ltd.	Direct	1,000,000	0.20%

Notes

1. The Board granted 300,000,000 Options to Mr. Sun on July 5, 2018, subject to Shareholders' approval. The relevant Shareholders' approval resolution was carried at the Special Meeting of the Company held on October 31, 2018.
2. Mr. Hong Luo re-designated as Non-Executive Director on March 19, 2018.
3. 15,000,000 Options were granted to Ms. Ho on July 5, 2018.
4. Mr. Qiping Men, an Executive Director, was appointed as Chief Executive Officer on January 1, 2018 and ceased all his offices and directorships in the Company and its Group on May 7, 2018.
5. Mr. Jeff Jingfeng Liu ceased to be a Director on March 7, 2019.

DIRECTORS' REPORT

Save as disclosed above, as at December 31, 2018, none of the Directors or the chief executives of the Company have or are deemed to have interests or short positions in the Common Shares, underlying shares of the Company and any of its associated companies (within the meaning of Part XV of the SFO) which were notifiable to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Company under Section 352 of Part XV of the SFO, or as otherwise notifiable to the Company and the SEHK pursuant to the Model Code.

Movements in Stock Options

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

Name	December 31, 2017	Granted	Exercised	Forfeited	Expired	December 31, 2018
Kwok Ping Sun	46,679,000	300,000,000	-	-	-	346,679,000
Michael Hibberd	46,679,000	-	-	-	-	46,679,000
Hong Luo	23,000,000	-	-	-	-	23,000,000
Gloria Ho	5,000,000	15,000,000	-	-	-	20,000,000
Raymond Fong	2,500,000	-	-	-	-	2,500,000
Yi He	2,500,000	-	-	-	-	2,500,000
Joanne Yan	2,500,000	-	-	-	-	2,500,000
Linna Liu	-	-	-	-	-	-
Jingfeng Liu ⁽²⁾	-	-	-	-	-	-
Xijuan Jiang	1,000,000	-	-	-	-	1,000,000
Qiping Men ⁽¹⁾	22,555,556	-	-	-	-	22,555,556
Sub-total for Directors	152,413,556	315,000,000	-	-	-	467,413,556
Sub-total for other share option holders	43,021,969	-	-	(17,805,743)	(1,623,901)	23,592,325
Total	195,435,525	315,000,000	-	(17,805,743)	(1,623,901)	491,005,881

Notes:

1. Mr. Hong Luo re-designated as Non-Executive Director on March 19, 2018.
2. Mr. Liu ceased as Director of the Company on March 9, 2019.
3. Mr. Qiping Men was appointed as Chief Executive Officer on January 1, 2018 and ceased all his offices and directorships in the Company and its Group on May 7, 2018

DIRECTORS' REPORT

Other than the holdings disclosed in the tables above, none of the Directors or chief executives of the Company or their related parties had any interests or short positions in any Common Shares of the Company or its associated companies as at December 31, 2018. Please refer to our consolidated financial statements (note 12) included in this Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2018.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITION IN COMMON SHARES AND UNDERLYING SHARES

As at December 31, 2018, so far as the Directors are aware, none of the Shareholders (other than the Directors or chief executives of the Company as disclosed above) had 5% or more beneficial interests or short positions in the issued Common Shares and underlying shares of the Company which were recorded in the register required to be maintained by the Company under Section 336 of Part XV of the SFO.

EMOLUMENT POLICY

The emolument policy of executives of the Company is set up by the compensation committee on the basis of merit, qualifications and competence. The emolument policy for the rest of employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the Directors of the Company is decided by the compensation committee and approved by the Board of Directors, having regard to comparable market statistics.

The Company also has a stock option plan for Directors, officers, employees, consultants and advisors (the "Stock Option Plan"). The options vest over a period ranging up to four years from the date of grant. Since March 1, 2012, options granted under the Stock Option Plan follow the granting rules of the Company's Post-IPO Stock Option Plan as disclosed above under the section entitled "Share Option Scheme".

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2018, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company or its subsidiaries.

PENSION SCHEMES

The Company does not have a pension scheme.

DIRECTORS' REPORT

LOAN

As at December 31, 2018, the Company had senior secured notes that are considered current liabilities. On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a forbearance agreement in respect of the Notes (the "Agreement"). Subsequent to December 31, 2016, the Company negotiated reinstatement of the Agreement, on March 21, 2017, the Company entered into a Forbearance Reinstatement Agreement ("FRA") with the Forbearing holders, and on September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). On October 31, 2018, the Company and the Forbearing Holders signed a Reinstatement and Amending Agreement (the "FRAA"). Details of the classification of the notes as a current liability are set out in Note 8 of the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Protection and preservation of the environment is a fundamental operating principle of the Company. Its projects and operations adhere strictly to established Standard Operating Procedures and Practices (SOPs) for all situations and conditions which exist. Ongoing environmental monitoring, assessments, and audits ensure the Company's objectives are met with respect to environmental stewardship.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATION

For the year ended December 31, 2018, the Company was not aware of any non-compliance with any relevant laws and regulations that have a significant impact on it. The Company's operations have met regulatory requirements and corporate standards.

RELATIONSHIPS WITH STAKEHOLDERS

The Company has actively cultivated, established, and maintained positive relationships with First Nations and Metis peoples in the region who are proximate to or interested in its projects. The Company provides project updates and meets with the various aboriginal communities on a regular basis to discuss impacts of its operations and pro-actively deal with any issues. The Company also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Company's alignment with their rules, regulations, and expectations.

MAJOR CUSTOMERS AND SUPPLIERS

Customers

The West Ells nameplate capacity is 5,000 bbl/day. With the startup of operations and production of West Ells Project, the Company will continuously look to expand its base of customers to obtain the best possible price for its product.

Suppliers

The largest supplier accounted for 24% of the Company's purchases. The five largest suppliers accounted for 51% of the Company's purchases for the year ended December 31, 2018.

To the knowledge of the Directors, none of the Directors, their close associates, or any shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had a beneficial interest in the Company's five largest suppliers.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

For the twelve months ended December 31, 2018, a consulting company, to which a director of Sunshine is related, charged the Company \$0.6 million (December 31, 2017 – \$0.6 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,687,377,000 common shares of the Company which represents approximately 27.51% of the Company's outstanding common shares as at December 31, 2018.

On June 1, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10% per annum and required repayment in full within three months from the date of receipt of the loan. The total loan amount was HKD14.2 million (approximately CAD\$2.4 million). As at December 31, 2018, the loan and interests were paid in full.

On August 11, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10% per annum and required repayment in full within three months from the date of receipt of the loan. The total loan amount was HKD9.0 million (approximately CAD\$1.5 million). As at December 31, 2018, the loan and interests were paid in full.

For further details, please refer to the section headed "Message to Shareholders" and the heading entitled "Purchase, Sale or Redemption of Sunshine's Listed Securities" in the Management Discussion and Analysis section of this report.

Save as disclosed above, for the year ended December 31, 2018, the Company has not entered into any connected transactions (as defined under the Listing Rules).

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken by the Company during the year in the ordinary course of business are set out in Note 19 to the consolidated financial statements. None of these transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, the Company has maintained the prescribed public float of more than 25% of the issued share capital required under the Listing Rules during the period from the Listing Date to the date of this report.

INDEPENDENT AUDITOR

The financial statements were audited by PricewaterhouseCoopers LLP, who shall be eligible for re-appointment, and a resolution to this effect will be proposed at the forthcoming AGM of the Company.

On behalf of the Board

Kwok Ping Sun

Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three and twelve months ended December 31, 2018 is dated March 18, 2019, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

OVERVIEW

Sunshine is a holder and a developer of Athabasca region oil sands resources with approximately 0.99 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2018 was approximately 1.78 billion barrels. With approximately 1 million acres of oil sands and petroleum and natural gas leases, the Company has significant commercial development potential. Phase I (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is in production. The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the Western Hemisphere and the third largest oil resource in the world. Canadian oil sands represent the largest single source of supply of oil imported into the United States. The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

The Company's focus is on evaluating and developing its oil sands assets with the completion and operation of the 5,000 bbls/day Phase I commercial West Ells (the "Project"). When financing is available, the Company plans to add an additional 5,000 barrels per day of production capacity at Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at December 31, 2018, the Company had invested approximately \$1.29 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at December 31, 2018, the Company had \$0.58 million in cash.

Although production rates at the Company's West Ells project have been temporarily reduced in the weak WCS pricing environment experienced late in 2018 and 2019, the Company intends to continue with the following key project activities in 2019: (i) improve energy efficiency and the reliability of the Phase 1 facility; (ii) replace ESPs with higher capacity in better wells; (iii) ramp up production; (iv) achieve steady state operations; and (v) continue diversifying marketing options.

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on continuing operations and development in West Ells, marketing bitumen blends at favorable prices, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management takes will be successful. As such, there is significant doubt and there can be no assurance that the Company will be able to continue as a going concern.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATIONAL UPDATE

West Ells

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

For twelve months ended December 31, 2018, the Company's average bitumen production was 1,623 bbls/day. Diluent was blended at a 18.1% volumetric rate for the twelve month ended December 31, 2018 with the bitumen as part of the production process to create the marketable "Dilbit" blend product. The average Dilbit sales volume was 2,018 bbls/day.

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2019. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, significant additional financing will need to be secured to proceed.

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

A thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015. As at the date of this report, Muskwa has no production. Development of Godin areas is expected to be reactivated in 2019 under new ownership of Renergy, at no cost to Sunshine.

SUMMARY OF QUARTERLY RESULTS

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

(\$ thousands except
per share & bbl/d)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Bitumen sales (bbl/d) ¹	1,153	1,757	1,540	2,174	2,253	1,781	1,732	1,796
Petroleum sales	4,772	12,286	9,252	11,258	13,209	8,781	8,907	3,005
Royalties	28	270	149	114	126	36	86	20
Diluent	2,016	2,681	2,708	3,896	4,395	2,551	2,723	1,090
Transportation	3,757	4,047	3,086	4,527	4,391	3,272	3,264	1,153
Operating costs	4,609	5,030	5,392	5,671	5,733	5,547	6,360	2,216
Finance cost	9,386	13,824	16,791	15,348	21,095	11,687	13,974	14,467
Net loss	46,731	16,287	31,147	32,831	228,443	12,761	19,479	21,169
Per share - basic and diluted	0.01	0.00	0.01	0.01	0.04	0.00	0.00	0.00
Capital expenditures ²	195	521	803	1,381	860	1,815	1,862	4,679
Total assets	779,281	774,885	781,130	781,639	785,356	980,947	991,696	1,000,484
Working capital deficiency ³	461,341	423,360	412,067	385,244	368,593	343,136	333,488	325,736
Shareholders' equity	251,953	292,394	307,203	336,858	356,569	581,687	593,820	603,580

1. Bitumen sales volume for Q1 2017 only includes one month from March 1, 2017 to March 31, 2017.

2. Includes payments for exploration and evaluation, property, plant and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The working capital deficiency includes the USD current portion of the Notes converted to CAD at each period end exchange rate.

RESULTS OF OPERATIONS

Operating Netback

(\$ thousands, except \$/bbl)	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Realized bitumen revenue	\$ 2,756	\$ 8,814	\$ 26,267	\$ 23,143
Transportation	(3,757)	(4,391)	(15,417)	(12,080)
Royalties	(28)	(126)	(561)	(268)
Net bitumen revenues	(1,029)	4,297	10,289	10,795
Operating costs	(4,609)	(5,733)	(20,702)	(19,856)
Operating cash flow	\$ (5,638)	\$ (1,436)	\$ (10,413)	\$ (9,061)
Operating netback (\$ / bbl)	\$ (53.14)	\$ (6.94)	\$ (17.26)	\$ (15.56)

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

The Operating cash flow for the three months ended December 31, 2018 was a loss of \$5.6 million compared to a net loss of \$1.4 million for the three months ended December 31, 2017. Operating netback loss per barrel increased \$46.20/bbl from the loss of \$6.94/bbl to the loss of \$53.14/bbl. The increase in the operating cash flow per barrel deficiency was primarily due to a 29% blending sales price decrease, a 65% increase of the transportation cost, and 56% increase of operating cost, partially offset by the 10% decrease of diluent expense.

The operating cash flow for the twelve months ended December 31, 2018 was a net loss of \$10.4 million compared to a net loss of \$9.1 million for the twelve months ended December 31, 2017. Operating netback loss per barrel basis increased by \$1.70/bbl to a loss of \$17.26/bbl from a loss of \$15.56/bbl for the year ended December 31, 2017. The increase in the operating cash flow deficiency was primarily due to a 7% blending sales price increase quarter-over-quarter, partially offset by 23% transportation expense increase.

Bitumen Production

(Barrels/day)	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Bitumen production	1,059	2,352	1,623	1,940

- Bitumen production for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bitumen production at West Ells for the three and twelve months ended December 31, 2018 averaged 1,059 Bbls/day and 1,623 Bbls/day compared to 2,352 Bbls/day and 1,940 Bbls/day for the three and twelve months ended December 31, 2017, respectively.

Bitumen production decreased by 1,293 Bbls/day and 317 Bbls/day for the three and twelve months ended December 31, 2018 compared the same periods in 2017, respectively. The decrease was due to planned bitumen production reductions due to the low WCS price and lower nominations resulting from constrained pipeline capacity.

Bitumen Sales

	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
(Barrels/day)	2018	2017	2018	2017
Bitumen Sales	1,153	2,253	1,653	1,903

1. Bitumen sales for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Bitumen sales at West Ells for the three and twelve months ended December 31, 2018 averaged 1,153 Bbls/day and 1,653 Bbls/day compared to 2,253 Bbls/day and 1,903 Bbls/day for the three and twelve months ended December 31, 2017, respectively. Bitumen sales decreased 1,100 Bbls/day for the three months ended December 31, 2018 compared to the same period of 2017. For the twelve months ended December 31, 2018, bitumen sales decreased 250 Bbls/day compared to the same period last year. For the three and twelve months ended December 31, 2018, bitumen sales was decreased due to planned bitumen production reductions due to the low WCS price and lower nominations resulting from constrained pipeline capacity.

Petroleum Sales, net of royalties

	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
(\$ thousands, except \$/bbl)	2018	2017	2018	2017
Petroleum sales	\$ 4,772	\$ 13,209	\$ 37,568	\$ 33,902
Royalties	(28)	(126)	(561)	(268)
Balance, end of period	\$ 4,744	\$ 13,083	\$ 37,007	\$ 33,634
\$ / bbl	\$ 44.73	\$ 63.13	\$ 61.32	\$ 57.75

1. Petroleum sales, net of royalties for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Petroleum sales are from the sales of Dilbit. Petroleum sales, net of royalties for the three months ended December 31, 2018 decreased \$8.4 million to \$4.7 million from \$13.1 million for the same period of 2017. Petroleum sales per barrel, net of royalties decreased \$18.40/bbl to \$44.73/bbl from \$63.13/bbl for the same period of 2017. The \$8.4 million sales net of royalties decreased is mainly due to the 29% decrease of realized Dilbit price, and 49% decrease of the Bitumen sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Petroleum sales, net of royalties for the twelve months ended December 31, 2018 increased \$3.4 million to \$37.0 million from \$33.6 million for the twelve months ended December 31, 2017. Petroleum sales per barrel, net of royalties increased \$3.57/bbl to \$61.32 from \$57.75/bbl for the same period of 2017. Petroleum sales net of royalties increased by \$3.4 million primarily due to having twelve months of production ended December 31, 2018 compared to the ten months of production ended December 31, 2017, and a 7% increase of realized Dilbit price because of the increase in average petroleum benchmarking prices for the year.

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 in pre-payout. Royalties for the three and twelve months ended December 31, 2018 decreased \$0.1 million and increased \$0.3 million compared to the same period of 2017. The increases from 2017 are mainly due to higher WTI crude oil prices.

Bitumen Realization

(\$ thousands, except \$/bbl)	For the three months ended		For the twelve months ended	
	December 31 , 2018	2017	December 31, 2018	2017
Dilbit revenue	\$ 4,772	\$ 13,209	\$ 37,568	\$ 33,902
Diluent blended	(2,016)	(4,395)	(11,301)	(10,759)
Realized bitumen revenue ¹	\$ 2,756	\$ 8,814	\$ 26,267	\$ 23,143
(\$ / bbl)	25.99	42.53	43.52	39.74

1. Realized bitumen revenue is used to calculate operating netbacks.

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

During the three months ended December 31, 2018, the Company's bitumen realization revenue decreased by \$6.0 million to \$2.8 million from \$8.8 million for the three months ended December 31, 2017. The bitumen realized price per barrel decreased \$16.54/bbl to 25.99/bbl from \$42.53/bbl. The decrease in bitumen realization per barrel was primarily the result of a 29% quarter-over-quarter realized Dilbit price decrease linked to average crude oil benchmark pricing, which is partially offset by a decrease in diluent prices.

During the twelve months ended December 31, 2018, the Company's bitumen realization revenue increased \$3.2 million to \$26.3 million from \$23.1 million for the same period in 2017. The bitumen realized price per barrel increased \$3.78/bbl to \$43.52/bbl from \$39.74/bbl. The increase in bitumen realization per barrel was primarily the result of a 7% year-over-year realized Dilbit price increase, which is partially offset by an increase in diluent prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Diluent Costs

(\$ thousands, except \$/bbl and blend ratio)	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Diluent	\$ 2,016	\$ 4,395	\$ 11,301	\$ 10,759
\$/bbl	19.00	21.21	18.73	18.47
Blend ratio	20.0%	16.4%	18.1%	18.1%

1. Diluent purchased for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

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

Diluent costs per barrel for the three and twelve months ended December 31, 2018 was \$19.0/bbl and \$18.73/bbl compared to \$21.21/bbl and \$18.47/bbl for the three and twelve months ended December 31, 2017, respectively. For the three month ended December 31, 2018, the decrease in the diluent expense per barrel was primarily the result of a quarter-over-quarter decrease in the average condensate benchmark pricing, which was partially offset by a higher blending ratio in Q4 2018. For the year ended December 31, 2018, the increase in the diluent expense per barrel was primarily the result of the increase of the average condensate benchmark pricing.

Transportation

(\$ thousands, except \$/bbl)	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Transportation	\$ 3,757	\$ 4,391	\$ 15,417	\$ 12,080
\$/ bbl	35.42	21.19	25.55	20.74

1. Transportation costs for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

Transportation costs consist of trucking costs for Dilbit and pipeline terminal fees. The transportation expense per barrel for the three and twelve months ended December 31, 2018 was \$35.42/bbl and \$25.55/bbl compared to \$21.19/bbl and \$20.74/bbl for the three and twelve months ended December 31, 2017, respectively. The increase in the transportation cost per barrel was mainly due to higher pipeline terminal costs and increased transportation rates charged by the third party trucking companies.

Operating Costs

(\$ thousands, except \$/bbl)	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Energy operating costs	\$ 1,035	\$ 1,243	\$ 3,998	\$ 5,618
Non-energy operating costs	3,574	4,490	16,704	14,238
Operating costs	\$ 4,609	\$ 5,733	\$ 20,702	\$ 19,856
\$/ bbl	43.45	27.67	34.30	34.10

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Operating costs for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

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

The operating expense per barrel for the three and twelve months ended December 31, 2018 was \$43.45/bbl and \$34.30/bbl compared to \$27.67/bbl and \$34.10/bbl for the three and twelve months ended December 31, 2017, respectively. The operating costs increase per barrel from the prior periods is primarily due to the lower bitumen production. Since the majority of the operating costs at West Ells are fixed in nature, the operating costs per barrel of production should be reduced as production ramps up at West Ells.

General and Administrative Costs

(\$ thousands)	For the three months ended December 31 ,					
	2018			2017		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 2,318	\$-	\$ 2,318	\$ 2,248	\$-	2,248
Rent	589	-	589	580	-	580
Legal and audit	239	-	239	404	-	404
Other	650	-	650	815	-	815
Total	\$ 3,796	\$-	\$ 3,796	\$ 4,047	\$-	4,047

(\$ thousands)	For the twelve months ended December 31 ,					
	2018			2017		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 6,858	\$-	\$6,858	\$ 8,820	\$232	8,588
Rent	2,074	-	2,074	2,313	151	2,162
Legal and audit	964	-	964	1,340	-	1,340
Other	2,706	-	2,706	3,673	17	3,656
Total	\$ 12,602	\$-	\$12,602	\$ 16,146	\$400	15,746

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

The Company's general and administrative costs were \$3.8 million and \$12.6 million for the three and twelve months ended December 31, 2018 compared to \$4.0 million and \$16.1 million for the three and twelve months ended December 31, 2017. General and administrative costs decreased by \$0.2 million and \$3.5 million for the three and twelve months ended December 31, 2018 compared to the same periods in 2017 primarily due to workforce reductions and the Company's continued focus on cost management.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Finance Costs

	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
(\$ thousands)	2018	2017	2018	2017
Interest expense on senior notes	\$ 7,655	\$ 13,966	\$ 36,991	\$ 40,459
Interest expense on other loans	555	115	731	123
Redemption/yield maintenance premium	-	5,813	13,316	17,695
Financing related costs	766	-	1,019	978
Other interest expense	122	911	2,180	873
Unwinding of discounts on provisions	288	290	1,112	1,095
Finance costs	\$ 9,386	\$ 21,095	\$ 55,349	\$ 61,223

The Company's finance costs were \$9.4 million and \$55.3 million for the three and twelve months ended December 31, 2018 compared to \$21.1 million and \$61.2 million for the three and twelve months ended December 31, 2017. Finance cost decreased \$11.7 million and \$5.9 million for the three and twelve months ended December 31, 2018 compared to the same periods in 2017. The decreases are the mainly results of the lower interest rate of the Reinstatement and Amending Agreement signed on October 31, 2018.

SHARE-BASED COMPENSATION

	For the three months ended December 31 ,					
	2018			2017		
(\$ thousands)	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Share-based compensation	2,740	-	2,740	408	-	408

	For the twelve months ended December 31 ,					
	2018			2017		
(\$ thousands)	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Share-based compensation	4,009	-	4,009	3,260	16	3,244

Share-based compensation expense for the three and twelve months ended December 31, 2018 was \$2.7 million and \$4.0 million compared to \$0.4 million and \$3.3 million for the same periods in 2017. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its audited consolidated financial statements . Fair value is determined using the Black-Scholes option pricing model.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

DEPLETION, DEPRECIATION AND IMPAIRMENT

	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
(\$ thousands, except \$/bbl)	2018	2017	2018	2017
Depletion	\$ 2,234	\$ 5,050	\$ 13,134	\$ 14,183
Depreciation	133	182	522	553
Impairment	-	195,000	-	195,000
Depletion, depreciation and impairment	\$ 2,367	\$ 200,232	\$ 13,656	\$ 209,736
Depletion (\$ / bbl)	\$ 21.06	\$ 24.37	\$ 21.76	\$ 24.35

1. Depletion for twelve months ended December 31, 2017 only includes ten months from March 1, 2017 to December 31, 2017.

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at that time, the Company started recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three months ended March 31, 2017. The depletion rate is based on unit-of-production.

Depletion, impairment and depreciation expense was \$2.4 million and \$13.7 for the three and twelve months ended December 31, 2018 compared to \$200.2 million and \$209.7 million for the three and twelve months ended December 31, 2017, respectively. Depletion per barrel decreased is due the lower property value caused by the impairment write offs.

Exploration & Evaluation ("E&E") Asset Impairment

For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life.

Recoverable amount was based on the FVLCD model using the range between the median land sale price and the mean land sale price of \$256 per acre to \$444 per acre, observed in Northern Alberta for similar properties.

For the year ended December 31, 2018, the Company did not recognized an impairment loss as the estimated recoverable amount exceeded the carrying value. A 0.5% change in the land sale prices would not change the impairment assessment of the E&E properties. The FVLCD model used is considered a level 2 fair value technique based on the observable and unobservable inputs used.

2017 Impairment

As at December 31, 2017, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. Significant indicators of impairment were downward revision of reserves and resources, decline in forward commodity benchmark prices and the Company's inability to make any capital expenditures other than West Ells property under the debt agreement. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Recoverable amount was based on the FVLCD model using the median land sale price of \$270 per acre, observed in Northern Alberta for similar properties. For the year ended December 31, 2017, the Company recognized an impairment loss of \$25 million (December 31, 2016 - \$Nil) on its E&E Assets as the estimated recoverable amount exceeded the carrying value. The recoverable amount was estimated to be \$268.2 million.

A 0.5% change in the land sale prices would change the impairment by \$1.3 million. The FVLCD model used is considered a level 2 fair value technique based on the observable and unobservable inputs used.

Property, Plant & Equipment ("PP&E") Asset Impairment

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants ("GLJ") as of December 31, 2018. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2018, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at December 31, 2018 was 8.25% based on the specific risk to the assets in West Ells.

The recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions. As at December 31, 2018, holding all other variables in the FVLCD calculation for each CGU constant:

- if the discount rate increased by 0.5%, the impairment of the West Ells CGU would increase by approximately \$20 million; and
- if the forecast combined average realized price decreased by 1%, the impairment of the West Ells CGU would increase by approximately \$28 million.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @ Cushing \$US/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2019	2	0.750	56.25	47.67	37.65	1.85
2020	2	0.770	63.00	58.44	51.21	2.29
2021	2	0.790	67.00	65.82	59.51	2.67
2022	2	0.810	70.00	67.90	61.62	2.90
2023	2	0.820	72.50	70.12	63.82	3.14
2024	2	0.825	75.00	72.73	66.45	3.23
2025	2	0.825	77.50	75.76	69.48	3.34
2026	2	0.825	80.41	79.28	73.01	3.41
2027	2	0.825	82.02	81.24	74.96	3.48
2028	2	0.825	83.66	83.22	76.95	3.54
2029+		escalate oil, gas and product prices at 2% per year thereafter				

2017 Impairment

As at December 31, 2017 the Company reviewed the West Ells CGU for circumstances that indicated the asset may be impaired due to a significant and sustained decline in forward commodity benchmark prices, compared to those at December 31, 2016, resulting in an impairment of \$ 170 million (December 31, 2016 - \$Nil). The recoverable amount was estimated to be \$395.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The recoverable amount of the West Ells CGU as at December 31, 2017 was determined using FVLCD model, with the assumptions that follow. Reserves value was based on the Company's December 31, 2017 reserves report as prepared by its independent reserve engineer. In assessing FVLCD the recoverable amount of the West Ells CGU was estimated based on proved plus probable reserves using a post-tax discount rate of 8.5 percent. Key input estimates used in the determination of cash flows from West Ells reserves included: quantities of reserves and future production; deferred income tax liability; forward commodity pricing as prepared by independent reserve engineer; development, operating and abandonment costs; royalty obligations and discount and risk rates. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used.

The results of the Company's impairment assessment on West Ells are sensitive to changes in any of the key input estimates of which changes could decrease or increase the recoverable amount of the asset and result in additional impairment charges or recovery of those impairments. A 0.5% increase or decrease in the discount rate would increase the impairment by \$34.5 million or decrease the impairment by \$31.1 million, respectively.

Assuming all the same assumptions as above, a 1% increase or decrease in the forecast commodity prices would decrease the impairment by \$13 million or increase the impairment by \$7 million, respectively.

The FVLCD calculation assumes the following forecast oil prices in, which were based on the December 31, 2017 price decks prepared by the Company's independent reserve engineer.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @ Cushing \$US/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2018	2	0.790	59.00	48.89	39.63	2.20
2019	2	0.790	59.00	53.16	45.71	2.54
2020	2	0.800	60.00	56.25	49.81	2.88
2021	2	0.810	63.00	59.26	52.89	3.24
2022	2	0.820	66.00	62.20	55.89	3.47
2023	2	0.830	69.00	65.06	58.82	3.58
2024	2	0.830	72.00	68.67	62.43	3.66
2025	2	0.830	75.00	72.29	66.05	3.73
2026	2	0.830	77.33	75.10	68.86	3.80
2027	2	0.830	78.88	76.96	70.72	3.88
2028+		escalate oil, gas and product prices at 2% per year thereafter				

INCOME TAXES

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and twelve months ended December 31, 2018 and 2017. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At December 31, 2018, the Company had total available tax deductions of approximately \$1.11 billion, with unrecognized tax losses that expire between 2029 and 2038.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2018		December 31, 2017
Working capital deficiency	\$ 461,341	\$	368,593
Shareholders' equity	251,953		356,569
	\$ 713,294	\$	725,162

1. Senior secured notes in the amount of \$271.0 million, plus accrued interest and unpaid amounts are considered current as at December 31, 2018 and have been included in the working capital deficit based on the October 31, 2018 conditions to extend the maturity date to August 1, 2019.

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 that 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 approximately USD \$11.2 million Senior Notes principal 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;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- 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 notes 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; and if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company is to obtain financing of USD \$5.0 million within 45 days after signing the Amended FA;
- The Company is to obtain financing of USD \$5.0 million every quarter.

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

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 was to obtain financing of at least US \$5 million from the date of signing until April 30, 2019 to maintain sufficient liquidity.

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 to be 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 of 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 December 31, 2018, the Company had incurred unsecured Permitted Debt for a total of US\$10.7 million (CAD\$14.6 million equivalent).

The Company has presented the Notes, Loans and Bonds as a current liability on the Audited consolidated financial statements of Financial Position as at December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On June 19, 2018, the company received a notice from the Alberta Court of Queen's Bench. As a result of such notice, CAD\$2.1 million of cash was put aside for creditor repayment. The notice was lifted in September 2018. As at year ended December 31, 2018, there was nil balance in relation to such Court Notice. On February 27, 2019 the company received another 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 subsequent to the year end. The Company is planning to file an appeal against such notice and will be contesting this notice in Court as well.

The Company received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016 and 2017 municipal property taxes of \$6.1 million. The Company was also charged with overdue penalties of \$1.3 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, negotiations are still ongoing and the Company remains positive in the discussion with RMWB. The Company believes that it has made adequate provision in the financial statements against this demand notice including the outstanding balance for 2018.

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 December 31, 2018, the Company had incurred \$14.7 million (US \$10.8 million equivalent using the period end exchange rate) in liens against them during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.3642 CAD.

The Company's strategy is to access sufficient capital, through equity issuances, monetization, joint ventures and the utilization of debt, in order to maintain a capital base that properly supports the objectives of maintaining financial flexibility and of sustaining future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Company's liquidity may be adversely affected if the Company's access to the capital markets is hindered because of financial market conditions generally, or as a result of conditions specific to the Company.

For the three and twelve months ended December 31, 2018, the Company reported a net loss of \$46.7 million and \$127.0 million, respectively. At December 31, 2018, the Company had a working capital deficiency of \$461.3 million including senior notes of \$271.0 million and an accumulated deficit of \$1,116.0 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 67% as at December 31, 2018, compared to 55% as at December 31, 2017.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which are denominated in US dollars, HK dollars and/or Chinese Renmibi. For the three and twelve months ended December 31, 2018, the Company has a loss of \$22.8 million and \$31.1 million compared to a \$1.2 million loss and \$17.2 million gain in the same periods in 2017. The changes in foreign exchange for the three and twelve months ended December 31, 2018 are primarily due to the unrealized gain or loss on the translation of the US denominated Notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 twelve months ended December 31, 2018. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2018 would have been impacted by Nil and the carrying value of the debt at December 31, 2018 would have been impacted by \$2.7 million. At December 31, 2018, the Company held approximately US \$0.01 million or \$0.014 million of cash, using the December 31, 2018 exchange rate of 1.3642, 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 December 31, 2018 would have been impacted by Nil and the carrying value of the debt at December 31, 2018 would have been impacted by \$0.05 million. At December 31, 2018, the Company held, after recent equity and bond closings, approximately HKD \$0.2 million or \$0.03 million using the December 31, 2018 exchange rate of 5.7408, 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 December 31, 2018 would have been impacted by approximately Nil. At December 31, 2018, the Company held approximately CNY \$0.58 million or \$0.12 million using the December 31, 2018 exchange rate of 5.0429, as cash in the Company's CNY bank accounts.

COMMITMENTS AND CONTINGENCIES

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

TRANSACTIONS WITH RELATED PARTIES

For the twelve months ended December 31, 2018, a consulting company, to which a director of Sunshine is related, charged the Company \$0.6 million (December 31, 2017 – \$0.6 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,687,377,000 common shares of the Company which represents approximately 27.51% of the Company's outstanding common shares.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan, the total loans amount were HKD \$33.7 million (approximately CAD \$5.4 million). As at December 31, 2018, all the loans and interests were paid in full.

On June 1, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10.0% per annum and required repayment in full within three months from the date of the receipt of the loan. The total loan amount was HKD \$14.2 million (approximately CAD \$2.4 million). As at December 31, 2018, the loan and interests were paid in full.

On August 11, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10.0% per annum and required repayment in full within three months from the date of the receipt of the loan. The total loan amount was about HKD \$9.0 million (approximately CAD \$1.5 million). As at December 31, the loan and interests were paid in full.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OFF-BALANCE SHEET ARRANGEMENTS

The Company has certain lease agreements which are reflected in the table under the heading "Commitments and Contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at December 31, 2018, the Company did not have any other off-balance sheet arrangements.

SUBSEQUENT EVENTS

On February 27, 2019 the company received another 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 subsequent to the year end. The Company is planning to file an appeal against such notice and will be contesting this notice in Court as well.

CHANGES IN ACCOUNTING POLICIES

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company adopted IFRS 2 on January 1, 2018 and did not have a material impact on the Company's Audited consolidated financial statements .

In May 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. The Company requires additional disclosures to disclose disaggregated revenue by product type which is presented in the Audited consolidated financial statements in Note 13.

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

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments", which details the new general hedge accounting model. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company adopted IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 has three principal classification categories for financial assets being measured at amortized costs, fair value through other comprehensive income ("FVOCI"), and fair value through profit or loss ("FVTPL").

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Future accounting policy changes

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company's financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

For a detailed discussion of the critical judgments, please refer to the audited financial statements thereto.

RISK FACTORS

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2018, which is available at www.sedar.com. The 2018 annual report of the Company will be available at the Company's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Company's 2018 Annual Information Form is available at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES

Horst Wunschelmeier, Chief Executive Officer, and Gloria Ho, Executive Director of the Board and Chief Financial Officer, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2018, the Chief Executive Officer and the Chief Financial Officer evaluated the design and operation of the Company's DC&P. Based on that evaluation, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer concluded that the Company's DC&P were effective as at December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Horst Wunschelmeier, Chief Executive Officer, and Gloria Ho, Executive Director of the Board and Chief Financial Officer, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Company used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR at December 31, 2018, and concluded that the Company's ICFR are effective at December 31, 2018 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the three months and year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

ADVISORY SECTION

Non-GAAP Measures

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

Cash Flow Used in Operations

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

	For the three months ended		For the twelve months ended	
	December 31,		December 31,	
(\$ thousands)	2018	2017	2018	2017
Net cash used in operating activities	(8,107)	(6,789)	(21,934)	(22,629)
Add (deduct)				
Net change in non-cash operating working capital items	(1,374)	1,304	(946)	(2,184)
Cash flow used in operations	(9,481)	(5,485)	(22,880)	(24,813)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Information

Certain statements in this MD&A are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and the Company hereby cautions investors about important factors that could cause the Company's actual results to differ materially from those projected in a forward-looking statement. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this MD&A), uncertainties and other factors some of which are beyond the Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, the Company strongly cautions investors against placing undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

All forward-looking statements in this MD&A are expressly qualified by reference to this cautionary statement.

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the SEHK and not shown elsewhere in this report is as follows:

CODE OF CORPORATE GOVERNANCE PRACTICE (THE "CODE")

The Company is committed to maintaining high standards of corporate governance. The Company recognizes that corporate governance practices are fundamental to the effective and transparent operation of a company and its ability to protect the rights of its shareholders and enhance shareholder value.

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Hong Kong Listing Rules"), has been complied with following its public listing, save that:

- The Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.
- Mr. Hong Luo (non-executive Director), Ms. Linna Liu (non-executive Director) and Mr. Raymond Shengti Fong (independent non-executive Director) were unable to attend the annual general meeting of the Company held on June 25, 2018 due to another important engagement at the relevant time. This deviates from Code provision A.6.7 which stipulates that independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings of the company and develop a balanced understanding of the views of shareholders. Notwithstanding, the Chairman of the Board and members of other Board committees of the Company attended the said annual general meeting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (THE "MODEL CODE")

The Company confirms that it has adopted the Model Code, as set out in Appendix 10 to the Hong Kong Listing Rules, following its public listing. Having made specific enquiries with all directors, the directors have confirmed and complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

MOVEMENTS IN STOCK OPTIONS

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

Name	December					December 31, 2018
	31, 2017	Granted	Exercised	Forfeited	Expired	
Kwok Ping Sun	46,679,000	300,000,000	-	-	-	346,679,000
Michael Hibberd	46,679,000	-	-	-	-	46,679,000
Hong Luo	23,000,000	-	-	-	-	23,000,000
Gloria Ho	5,000,000	15,000,000	-	-	-	20,000,000
Raymond Fong	2,500,000	-	-	-	-	2,500,000
Yi He	2,500,000	-	-	-	-	2,500,000
Joanne Yan	2,500,000	-	-	-	-	2,500,000
Linna Liu	-	-	-	-	-	-
Jingfeng Liu ⁽²⁾	-	-	-	-	-	-
Xijuan Jiang	1,000,000	-	-	-	-	1,000,000
Qiping Men ⁽¹⁾	22,555,556	-	-	-	-	22,555,556
Sub-total for Directors	152,413,556	315,000,000	-	-	-	467,413,556
Sub-total for other share option holders	43,021,969	-	-	(17,805,743)	(1,623,901)	23,592,325
Total	195,435,525	315,000,000	-	(17,805,743)	(1,623,901)	491,005,881

1. Mr. Men resigned as CEO and Executive Director of the Company on May 7, 2018.
2. Mr. Jingfeng Liu ceased as the non-executive Director of the Company on March 7, 2019.

Please refer to our consolidated financial statements included in the 2018 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2018.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended December 31, 2018 was \$0.04 (year ended December 31, 2017 - \$0.05). Options were valued using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2018 and 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Input Variables	Year ended December 31, 2018	Year ended December 31, 2017
Grant date share price (\$)	0.04-0.04	0.044-0.05
Exercise price (\$)	0.04-0.04	0.044-0.05
Expected volatility (%)	61.87-61.87	73.22-74.72
Option life (years)	2.88-2.88	3.76-3.79
Risk-free interest rate (%)	1.95-1.95	0.93-1.23
Expected forfeitures (%)	15.39-15.39	14.64-14.76

PURCHASE, SALE OR REDEMPTION OF SUNSHINE'S LISTED SECURITIES

Class "A" Common Shares

General mandate

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD \$0.272 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$22.0 million (approximately CAD \$3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$0.7 million (approximately CAD \$0.1 million), was incurred in relation to the Closing. Among the proceeds raised, approximately 92% of which was used as funds for repayment of shareholder's loan and the remaining 8% used as general working capital. Nil amount of the proceeds was unutilized. All proceeds were used commensurate with the intentions previously disclosed.

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 \$4.79 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 consequently the time to close the remaining 6,147,500 class "A" common shares lapsed. Among the proceeds raised, approximately 48% of which was used as repayment of shareholder's loan and the remaining 52% used as general working capital. Nil amount of the proceeds was unutilized. All proceeds were used commensurate with the intentions previously disclosed.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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 agreement was entered into for settlement of indebtedness with independent third parties. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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). A payment of CAD \$51,117 cash is to be made. This agreement was entered into for settlement of indebtedness with an independent third party. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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 will be allotted and issued upon the full conversion of the placing convertible bonds. 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 were exercised. As such, all Placing CB were redeemed by the Corporation 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 issued 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 the Placing CB to convert the whole principal amount of the Placing CB 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 pursuant to the terms and conditions of the Placing CB. The entire proceeds raised were used for general working capital of the Company. Nil proceeds was unutilized and the proceeds used commensurate with the intended use as previously stated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

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. The entire amount of the proceeds raised was used to offset the indebtedness that the Company owed to its trade creditors. Nil amount of the proceeds was unutilized. All proceeds were used in accordance with the intention stated previously.

SHARES OUTSTANDING

As at December 31, 2018 the Company has 6,135,846,624 Class "A" common shares issued and outstanding.

EMPLOYEES

As at December 31, 2018, the Company has 60 full-time employees. For the three and twelve months ended December 31, 2018, total staff costs amounted to \$2.3 million and \$6.9 million, respectively.

DIVIDENDS

The Company has not declared or paid any dividends in respect of the year ended December 31, 2018 (year ended December 31, 2017 - \$Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL STATEMENTS AND NOTES

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiaries, for the year ended December 31, 2018, together with comparative figures for the corresponding periods in 2017 as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31,	2018	2017
Assets		
<i>Current assets</i>		
Cash	\$ 583	\$ 3,671
Trade and other receivables	13,457	4,932
Prepaid expenses and deposits	3,208	1,110
	<u>17,248</u>	<u>9,713</u>
<i>Non-current assets</i>		
Exploration and evaluation	269,218	268,227
Property, plant and equipment	492,815	507,416
	<u>762,033</u>	<u>775,643</u>
	<u>\$ 779,281</u>	<u>\$ 785,356</u>
Liabilities and Shareholders' Equity		
<i>Current liabilities</i>		
Trade and accrued liabilities	\$ 183,137	\$ 120,316
Other liabilities	-	3,452
Bonds	24,462	-
Shareholders loans	-	5,339
Senior notes	270,990	249,199
	<u>478,589</u>	<u>378,306</u>
<i>Non-current liabilities</i>		
Provisions	48,739	50,481
	<u>527,328</u>	<u>428,787</u>
Shareholders' Equity		
Share capital	1,293,379	1,275,008
Contributed Surplus	74,531	70,522
Deficit	(1,115,957)	(988,961)
	<u>251,953</u>	<u>356,569</u>
	<u>\$ 779,281</u>	<u>\$ 785,356</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the year ended December 31,	2018	2017
Petroleum sales, net of royalties	\$ 37,007	\$ 33,634
Other income	8	10
	37,015	33,644
<i>Expenses</i>		
Diluent	11,301	10,759
Transportation	15,417	12,080
Operating	20,702	19,856
Depletion, depreciation and impairment	13,656	209,736
General and administrative	12,602	15,746
Finance costs	55,349	61,223
Stock based compensation	4,009	3,244
Foreign exchange (gains)/losses	30,975	(17,148)
	\$ 164,011	\$ 315,496
Loss before income taxes	(126,996)	(281,852)
Income taxes	-	-
Net loss and comprehensive loss for the year attributable to equity holders of the Company	\$ (126,996)	\$ (281,852)
Basic and diluted loss per share	\$ (0.02)	\$ (0.05)

Notes

1. Basis of Preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Hong Kong Listing Rules.

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

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiaries, Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong") and Sang Xiang Petroleum & Chemical (Shanghai) Limited (Sunshine Shanghai). Control is achieved when the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements when control is achieved and until control is lost. All inter-company transactions, balances, revenues and expenses are eliminated in full on consolidation. On July 14, 2015, Boxian was incorporated in the British Virgin Islands and is a wholly owned subsidiary of the Company. On March 24, 2017, Sunshine Shanghai was incorporated in China and is a wholly owned subsidiary of the Company. No activity has yet occurred in Boxian as at the date of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. Segment Information

The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

3. Trade Receivables

The Company's trade and accruals and other receivables are summarized as follows:

		December 31, 2018		December 31, 2017
Trade	\$	2,422	\$	1,548
Accruals and other receivables		11,035		3,377
Goods and services taxes receivable		-		7
		-		7
	\$	13,457	\$	4,932

The Company allows an average credit period of 30 days to its trade customers. The majority of the credit exposure on accounts receivable at December 31, 2018 pertains to accrued revenue for December 2018 production volumes. Sunshine transacts with a number of oil and natural gas marketing companies, and the marketing companies typically remit amounts to Sunshine by the 25th day of the month following production. The following is an aged analysis of trade receivables at the end of the reporting period:

		December 31, 2018		December 31, 2017
0 - 30 days	\$	646	\$	119
31 - 60 days		4		-
61 - 90 days		3		3
>90 days		1,769		1,426
		1,769		1,426
	\$	2,422	\$	1,548

Sunshine had historically very low bad debt expense about 1.9%. Applying a 1.9% expected credit loss to the Company's trade receivables balance of \$2.4 million as at December 31, 2018, would result in the recognition of \$0.05 million in expected credit losses. Therefore, application of this part of the standard on the Company is not significant. No provision has been recorded for expected credit losses.

4. Trade Payables

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

		December 31, 2018		December 31, 2017
Trade				
0 - 30 days	\$	2,437	\$	2,163
31 - 60 days		1,346		117
61 - 90 days		1,442		222
> 90 days		23,037		21,004
		23,037		21,004
		28,262		23,506
Accrued liabilities		154,875		96,810
		154,875		96,810
	\$	183,137	\$	120,316

MANAGEMENT'S DISCUSSION AND ANALYSIS

5. Dividends

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

6. Income Taxes

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

	December 31, 2018	December 31, 2017
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	\$ (83,667)	\$ (109,512)
Decommissioning liabilities	13,160	13,630
Share issue costs	702	1,705
Non-capital losses	299,767	258,818
Total Debt	3,147	2,945
Deferred tax benefits not recognized	(233,108)	(167,586)
	<u>\$ -</u>	<u>\$ -</u>

The Company's non-capital losses of \$1,110,249 (December 31, 2017 - \$958,584), expire between 2029 and 2038.

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 27.0%. The Company had no assessable profit in Canada for the three months and year ended December 31, 2018. The Company files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. At December 31, 2018, the Company had total available tax deductions of approximately \$1.11 billion, with unrecognized tax losses that expire between 2029 and 2038.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three months and year ended December 31, 2018.

REVIEW OF ANNUAL RESULTS

The audited consolidated financial statements for the Company for the twelve months ended December 31, 2018, were reviewed by the Audit Committee of the Company and approved by the Board.

PUBLICATION OF INFORMATION

This Annual Report is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the Company's website at www.sunshineroilsands.com.

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

OUTLOOK

Sunshine intends to continue to focus on cost controls and on carefully improving production at West Ells. The Company intends to ramp up production when the heavy oil pricing environment improves from currently high differentials from WTI oil prices. In addition, with the receipt of Shareholder's approval for changes to the joint venture agreement and supporting agreements for the Muskwa and Godin area, the Company sees potential significant benefits resulting from re-activation of the Muskwa and Godin Area activities.

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Sunshine Oilsands Ltd.

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Oilsands Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of operations and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Khurram Asghar.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 18, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in THOUSANDS of Canadian dollars)

As at December 31,		2018	2017
Assets	Notes		
<i>Current assets</i>			
Cash		\$ 583	\$ 3,671
Trade and other receivables	4	13,457	4,932
Prepaid expenses and deposits		3,208	1,110
		17,248	9,713
<i>Non-current assets</i>			
Exploration and evaluation	5	269,218	268,227
Property, plant and equipment	6	492,815	507,416
		762,033	775,643
		\$ 779,281	\$ 785,356
Liabilities and Shareholders' Equity			
<i>Current liabilities</i>			
Trade and accrued liabilities	7	\$ 183,137	\$ 120,316
Other liabilities	8	-	3,452
Bonds	8	24,462	-
Shareholders loans	19	-	5,339
Senior notes	8	270,990	249,199
		478,589	378,306
<i>Non-current liabilities</i>			
Provisions	9	48,739	50,481
		527,328	428,787
Shareholders' Equity			
Share capital	11	1,293,379	1,275,008
Contributed Surplus		74,531	70,522
Deficit		(1,115,957)	(988,961)
		251,953	356,569
		\$ 779,281	\$ 785,356

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

Approved by the Board
"Joanne Yan"
 Independent Non-Executive Director

"Kwok Ping Sun"
 Executive Director

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in thousands of Canadian dollars, except for per share amounts)

For the year ended December 31,	Notes	2018		2017
Petroleum sales, net of royalties	13	\$ 37,007	\$	33,634
Other income	14	8		10
		<u>37,015</u>		<u>33,644</u>
<i>Expenses</i>				
Diluent		11,301		10,759
Transportation		15,417		12,080
Operating		20,702		19,856
Depletion, depreciation and impairment	5,6	13,656		209,736
General and administrative	15	12,602		15,746
Finance costs	16	55,349		61,223
Stock based compensation	12.4	4,009		3,244
Foreign exchange (gains)/losses	18.6	30,975		(17,148)
		<u>\$ 164,011</u>	<u>\$</u>	<u>315,496</u>
Loss before income taxes		<u>(126,996)</u>		<u>(281,852)</u>
Income taxes	10	-		-
Net loss and comprehensive loss for the year attributable to equity holders of the Company		<u>\$ (126,996)</u>	<u>\$</u>	<u>(281,852)</u>
Basic and diluted loss per share	17	<u>\$ (0.02)</u>	<u>\$</u>	<u>(0.05)</u>

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian dollars)

	Notes	Share capital	Reserve for share based compensation	Deficit	Total
Balance, December 31, 2017		1,275,008	70,522	(988,961)	356,569
Net loss and comprehensive loss for the year		-	-	(126,996)	(126,996)
Issue of common shares	11.1	18,631	-	-	18,631
Share issue costs, net of deferred tax (\$Nil)	11.1	(260)	-	-	(260)
Recognition of share-based compensation	12.4	-	4,009	-	4,009
Balance, December 31, 2018		1,293,379	74,531	(1,115,957)	251,953
Balance, December 31, 2016		1,247,302	67,262	(707,109)	607,455
Net loss and comprehensive loss for the year		-	-	(281,852)	(281,852)
Issue of common shares	11.1	28,311	-	-	28,311
Share issue costs, net of deferred tax (\$Nil)	11.1	(605)	-	-	(605)
Recognition of share-based compensation	12.4	-	3,260	-	3,260
Balance, December 31, 2017		1,275,008	70,522	(988,961)	356,569

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

	Notes	For the years ended December 31,	
		2018	2017
<i>Cash flows used in operating activities</i>			
Net loss		\$ (126,996)	\$ (281,852)
Finance costs		55,349	61,223
Unrealized foreign exchange (gains)/losses	18.6	31,110	(17,154)
Interest income	14	(8)	(10)
Depletion, depreciation and impairment	5,6	13,656	209,736
Share-based compensation	12.4	4,009	3,244
Movement in non-cash working capital	22	946	2,184
Net cash (used in) operating activities		(21,934)	(22,629)
<i>Cash flows used in investing activities</i>			
Interest income received	14	8	10
Payments for exploration and evaluation assets	5	(1,511)	(1,562)
Payments for property, plant and equipment	6	(1,389)	(7,654)
Movement in non-cash working capital	22	(282)	(4,823)
Net cash (used in) investing activities		(3,174)	(14,029)
<i>Cash flows provided in financing activities</i>			
Proceeds from issue of common shares	11.1	9,907	28,311
Payment for share issue costs	11.1	(260)	(605)
Payment for finance cost	16	(1,439)	(7,710)
Payments for the notes principal	8	-	(1,857)
Proceeds from Bonds	8	21,301	3,601
Repayments for the Bonds	8	(10,857)	-
Proceeds from shareholder loans	19	3,843	5,399
Repayments for shareholder loans	19	(9,182)	-
Movement in non-cash working capital	22	8,724	-
Net cash provided by financing activities		22,037	27,139
Effect of exchange rate changes on cash held in foreign currency	18.6	(17)	(445)
Net (decrease) in cash		(3,088)	(9,964)
Cash, beginning of year		3,671	13,635
Cash, end of year		\$ 583	\$ 3,671

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(Expressed in thousands of Canadian dollars, unless otherwise indicated)

1. COMPANY INFORMATION

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

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

On July 14, 2015, Boxian Investments Limited ("Boxian") was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Boxian is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As of December 31, 2018, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

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

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

2. BASIS OF PREPARATION

Going Concern

These Consolidated 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 pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following December 31, 2018.

The timing and extent of forecast capital and operating expenditures is based on the Company's 2019 budget and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 is to obtain financing of USD \$5.0 million within 45 days after signing the Amended FA; and the Company is to obtain financing of USD \$5.0 million every quarter.

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 the repayment requirements of US \$1.8 million on October 30, 2017, US \$5.0 million on February 1, 2018 and US \$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.

On June 19, 2018, the company received a notice from the Alberta Court of Queen's Bench. As a result of such notice, CAD\$2.1 million of cash was put aside for creditor repayment. The notice was lifted in September 2018. As at year ended December 31, 2018, there was nil balance in relation to such Court Notice. On February 27, 2019 the company received another 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 subsequent to the year end. The Company is planning to file an appeal against such notice and will be contesting this notice in Court as well.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.1 Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 18). The Consolidated Financial Statements are presented in Canadian Dollars ("\$"), which is the functional currency of the Company.

2.2 Critical accounting judgments and key sources of estimation uncertainty

In applying the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the affected periods.

2.2.1 Critical judgments and estimates in applying accounting policies

The following are the critical judgments, apart from those involving estimates, that management has made in applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Joint Control

Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the capital and operating activities of the projects it undertakes with partners and when the decisions in relation to those activities require unanimous consent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Oil and gas reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Reserve estimates are based on, among other things, forecasts of production, prices, cost estimates and economic conditions.

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production, prices and other economic conditions;
- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and
- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Company's development and production assets are determined using proved plus probable reserves.

Impairment of non-financial assets

The recoverable amounts of cash generating units ("CGU") and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs of disposal. These calculations require the use of estimates and assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of exploration and evaluation assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Recoverability of exploration and evaluation costs

Exploration and Evaluation ("E&E") costs are capitalized as exploration and evaluation assets ("E&E Assets") by CGU and are assessed for impairment when circumstances suggest that the carrying amount may exceed recoverable value. This assessment involves judgment as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues based on forecasted oil and gas prices; (iii) future development costs and production expenses; (iv) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value; and (v) potential value to future E&E activities of any geological and geophysical data acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Decommissioning costs

A provision is required to be recognised for the future retirement obligations associated with the Company's assets. The decommissioning provision is based on estimated costs, taking into account the anticipated method and extent of restoration consistent with legal, regulatory and construction requirements, technological advances and the possible use of the site. Since these estimates are specific to the sites involved, there are many individual assumptions underlying the amount provided. These individual assumptions can be subject to change based on actual experience and a change in one or more of these assumptions could result in a materially different amount.

Share-based compensation

The Company recognises compensation expense on options, preferred shares and stock appreciation rights ("SARs") granted. Compensation expense is based on the estimated fair value of each option, preferred share and stock appreciation right at its grant date, the estimation of which requires management to make assumptions about future volatility of the Company's stock price, future interest rates, future forfeiture rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

Fair Value Measurement

The estimated fair value of financial instruments is reliant upon a number of estimated variables including foreign exchange rates and interest rates, volatility curves and risk of non-performance. A change in any one of these factors could result in a change to the overall estimated valuation of the instrument.

Deferred income taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

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 consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2018. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiaries, Sunshine Hong Kong, Boxian, and Sunshine Shanghai. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The results of subsidiaries are included in the consolidated financial statements when control is achieved and until control is lost. Inter-company transactions, balances, revenues and expenses are eliminated on consolidation.

3.2 Oil and Natural Gas Exploration and Development Expenditures

Exploration and evaluation assets

E&E Assets are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, exploration and evaluation drilling, directly attributable general and administrative costs (including share-based compensation costs), borrowing costs, consequential operating costs net of revenues, and the initial estimate of any decommissioning obligation associated with the assets. The costs directly associated with an exploration well are capitalized as intangible E&E Assets until the drilling of the well is complete and the results have been evaluated.

Pre-acquisition costs for oil and gas assets are recognised in the consolidated statements of operations and comprehensive loss when incurred. Acquisition of undeveloped mineral leases is initially capitalized as E&E Assets and charged to consolidated statements of operations and comprehensive loss upon the expiration of the lease, impairment of the asset or management's determination that no further exploration or evaluation activities are planned on the lease, whichever comes first. E&E Assets can be further broken down into tangible and intangible assets. Intangible costs are all costs considered necessary to drill a well and ready a site prior to the installation of the production equipment. Tangible drilling costs are those incurred to purchase and install the production equipment and includes production facilities.

The decision to transfer assets from exploration and evaluation to development and producing assets (included in property, plant and equipment ("PP&E")) occurs when the technical feasibility and commercial viability of the project is determined, based on proved and probable reserves being assigned to the project. If commercial reserves are found, exploration and evaluation intangible assets are tested for impairment and transferred to appraisal and development tangible assets as part of Property, Plant and Equipment. No depreciation and/or amortization is charged during the exploration and evaluation phase.

Impairment

If no economically recoverable reserves are found upon evaluation, the exploration asset is tested for impairment and the difference between the carrying amount and the recoverable amount are charged to the consolidated statements of operations and comprehensive loss. If extractable reserves are found and, subject to further appraisal activity which may include the drilling of additional wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while progress is made in assessing the commerciality of the reserves. All such carried costs are subject to technical, commercial and management review as well as review for indicators of impairment at the end of each reporting period to confirm the continued intent to develop or otherwise extract value from the discovery. Lack of intent to develop or otherwise extract value from such discovery would result in the relevant expenditures being charged to the consolidated statements of operations and comprehensive loss. When economically recoverable reserves are determined and development is approved, the relevant carrying value is transferred to Property, Plant and Equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

E&E Assets are assessed for the indicators of impairment at the end of each reporting period. The assessment for impairment is completed on a CGU basis. After impairment is assessed, any carrying amounts which exceed recoverable amounts, by CGU, on the E&E Assets are written down to the recoverable amount through the consolidated statements of operations and comprehensive loss.

Impairment losses recognised in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

3.3 Property, plant and equipment

Carrying value

PP&E includes computer and office equipment and development and production assets (includes crude oil assets), which are stated at cost less the total of accumulated depletion, depreciation and impairment losses. The initial cost of a PP&E consists of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation associated with the asset and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid, including the fair value of any other consideration given to acquire the asset.

Suspension costs

Suspension costs, which are the costs related to the suspension of a capital project, such as those costs incurred to ensure safety of the worksite and preservation of an asset that are not directly attributable to the development of an asset are expensed through the consolidated statements of operations and comprehensive loss.

Depletion and depreciation

Depletion of development and production costs (crude oil assets), included in PP&E, and production equipment are measured on the unit-of-production method based upon estimated proved plus probable recoverable oil and natural gas reserves before royalties in each CGU as determined by independent engineers.

Office furniture, equipment, computers and vehicles are depreciated on a declining balance basis between 20 and 30 percent per year and straight-line basis over their estimated useful lives.

Impairment

At the end of each reporting period, the Company reviews the PP&E for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other property, plant and equipment assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of estimated recoverable reserves.

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU, or group of CGUs and then reducing the carrying amount of other assets of the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognised as an expense in the consolidated statements of operations and comprehensive loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Where an impairment loss subsequently reverses or decreases, the carrying amount of the assets or CGU is increased to the revised estimate of its recoverable amount, with the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior periods. A reversal of an impairment loss is recognised immediately in the consolidated statements of operations and comprehensive loss, unless the relevant asset is carried at the revalued amount, in which cases the reversal of the impairment loss is treated as a revaluation increase.

Corporate assets are allocated to each CGU on the basis of proportionate future net revenue calculated consistent with the recoverable amount in the most recent impairment test.

Maintenance and repairs

Major repairs and maintenance consists of replacing assets or substantial parts of an asset. Where an asset or substantial part of an asset is replaced and it is probable that future economic benefits associated with the replacement will flow to the Company, the expenditure is capitalized and depreciated over the remaining life of the asset. The net carrying value of the asset or substantial part being replaced is derecognized at the time the replacement is capitalized. All other maintenance costs are expensed as incurred.

3.4 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.4.1 Decommissioning costs

Decommissioning costs and liabilities for statutory, contractual, constructive or legal obligations associated with site restoration and abandonment of tangible long-lived assets are initially measured at a fair value which approximates the cost the Company would incur in performing the tasks necessary to abandon the field and restore the site. Fair value is recognised in the consolidated statement of financial position at the present value of expected future cash outflows to satisfy the obligation as a liability, with a corresponding increase in the related asset, and is depleted using the unit-of-production method over the estimated remaining proved plus probable oil and gas reserves before royalties as appropriate.

Subsequent to initial measurement, the effect of the passage of time on the liability for the decommissioning obligation (accretion expense) is recognised in the consolidated statements of operations and comprehensive loss as finance costs. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognised as a gain or loss in the consolidated statements of operations and comprehensive loss in the period in which the settlement occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.5 Share-based compensation

3.5.1 Equity-settled share-based compensation

Share options and preferred shares issued to employees

Equity-settled share-based compensation to directors and employees are measured at the fair value of the equity instruments, less the fair value of the proceeds received on issuing the equity instruments at the issue date.

The fair value of the equity instruments, including share options, warrants or preferred shares, expected to vest as determined at the issue date of the equity-settled share-based compensation is expensed on a graded vesting basis over the vesting period, unless the services are directly attributable to qualifying assets, with a corresponding increase in reserve for share based compensation.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statements of operations and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share based compensation.

At the time when the equity instruments are exercised or converted, the amount previously recognised in reserve for share based compensation will be transferred to share capital. In the event vested equity instruments expire, unexercised or are forfeited, previously recognized share-based compensation associated with such instrument is not reversed. If unvested instruments are forfeited, previously recognized share-based compensation is reversed.

The Company records compensation expense at the date of issue, based on fair value and management's best estimates.

Share options and preferred shares issued to non-employees

Equity-settled share-based compensation transactions, with parties other than employees and directors, are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments issued, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (reserve for share based compensation), when the Company obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets or directly attributable to qualifying assets.

3.6 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. The financial assets are initially measured at fair value, including transaction costs. Financial assets which have been classified as at fair value through profit or loss, are initially measured at fair value and transaction costs are expensed when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.6.1 Financial assets at fair value through profit or loss ("FVTPL")

IAS 39 (For the year ended December 31, 2017)

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated statements of operations and comprehensive loss. The net gain or loss recognised in the consolidated statements of operations and comprehensive loss incorporates any dividend or interest earned on the financial asset.

IFRS 9 (Replacing IAS 39 for the year ended December 31, 2018)

Classification and Measurement of Financial Instruments Financial assets and financial liabilities are classified into three categories: Amortized Cost, Fair Value through Other Comprehensive Income ("FVTOCI") and Fair Value through Profit and Loss ("FVTPL"). The classification of financial assets is determined by their context in the Company's business model and by the characteristics of the financial asset's contractual cash flows.

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification.

• Amortized Cost

Cash, trade and other receivables, trade and accrued liabilities, bonds, loans, shareholder loans and senior notes are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- *FVTPL*

Financial assets measured at FVTPL are measured initially at fair value and are subsequently measured at fair value with changes in fair value immediately charged to the consolidated statement of operations. As at December 31, 2018, the Company does not have any financial instruments measured at FVTPL.

- *FVTOCI*

Financial assets measured at FVTOCI are subsequently measured at fair value with changes in fair value recognized in Other Comprehensive Income ("OCI"), net of tax. Transaction costs related to the purchase of financial assets are measured at FVTOCI. Interest, impairment and foreign exchange gains or losses are recognized in the statements of income while all other gains or losses are recognized in OCI. Upon derecognition of the underlying financial asset, amounts in OCI are reclassified to the statements of income. As at December 31, 2018, the Company does not have any financial instruments measured at FVTOCI.

3.6.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and deposits) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below). Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.6.3 Impairment of financial assets

IAS 39 - (For year ended December 31, 2017)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is expensed against the allowance account. Subsequent recoveries of amounts previously expensed are charged against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statements of operations and comprehensive loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRS 9 - (Replacing IAS 39 for year ended December 31, 2018)

Loss allowances are measured at an amount equal to the lifetime expected credit losses on the asset. Expected credit losses are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls for financial assets that are not credit-impaired at the reporting date and as the difference between the gross carrying amount and the present value of estimated future cash flows for financial assets that are credit-impaired at the reporting date. Loss allowances for expected credit losses for financial assets measured at amortized cost are presented in the statement of financial position as a deduction from the gross carrying amount of the asset.

3.6.4 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The difference between the asset's carrying amount and the sum of the consideration received (and/or receivable), and the cumulative gain or loss that had been recognised in other comprehensive loss and accumulated in equity is recognised in the consolidated statements of comprehensive loss.

3.7 Financial liabilities and equity instruments issued by the Company

3.7.1 Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the terms of the arrangement.

3.7.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded, based on the proceeds received, net of direct issue costs.

3.7.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The Company has classified its trade and accrued liabilities and borrowings as other financial liabilities.

3.7.4 Derecognition of financial liabilities

The Company derecognises financial liabilities when the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statements of operations and comprehensive loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial Liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognized in earnings or loss. Where a financial liability is modified in a way that does not constitute an extinguishment (generally when there is a change of less than 10% in the present value of cash flows discounted at the original effective interest rate), the modified cash flows are discounted at the liability's original effective interest rate. Transaction costs paid to third parties in a modification are amortized over the remaining term of the modified debt.

3.8 Derivatives and embedded derivatives

Derivative instruments include financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of derivatives are recognized immediately in profit or loss.

3.9 Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

3.9.1 Current tax

Tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statements of operations and comprehensive loss because of items of income or expense that are taxable or deductible in other years and permanent items which are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.9.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are recognised as an expense or income, in the consolidated statements of operations and comprehensive loss, except when they relate to items that are recognised in other comprehensive loss or directly in equity, in which case the tax is recognised in other comprehensive loss or directly in equity.

3.10 Cash

Cash and cash equivalents includes cash and short-term investments, such as money market deposits or similar type instruments, with a maturity of ninety days or less when purchased.

3.11 Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Foreign exchange gains and losses are included in consolidated statements of operations and comprehensive loss.

3.12 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in the consolidated statements of operations and comprehensive loss in the period in which they are incurred.

Between the dates the West Ells SAGD project recommenced and the date the West Ells asset was ready for use, the Company did not capitalize borrowing costs incurred from the senior secured notes.

3.14 Jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Company and other partners of assets contributed to or acquired for the purpose of the jointly controlled assets, without the formation of a corporation, partnership or other entity.

The Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with its partners, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the jointly controlled asset and any expenses it incurs in relation to its interest in the jointly controlled assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.15 Revenue recognition

IAS 18 (For the year ended December 31, 2017)

Revenue associated with the sale of bitumen owned by Sunshine is recognized when title is transferred from Sunshine to its customers. Revenue is measured at the fair value of the consideration received or receivable. Revenue represents Sunshine's share net of royalty payments to governments. Revenue from the sale of bitumen is recorded gross of pipeline, treating and terminating costs and is recognized when all of the following conditions have been satisfied:

- Sunshine has transferred the significant risks and rewards of ownership of the goods to the buyer;
- Sunshine retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold;
the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Sunshine; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

IFRS 15 (Replacing IAS 18 for the year ended December 31, 2018)

Revenue from the sale of crude oil is recognized when consideration is due when title has transferred and is generally collected in the month following the month of delivery. Revenues associated with the sale of crude oil are recognized at a point in time when control of goods have transferred, which is generally when title passes from the Company to the customer. Revenues are recorded net of crown royalties. Crown royalties are recognized at the time of production. Revenue is allocated to each performance obligation on the basis of its standalone selling price and measured at the transaction price, which is the fair value of the consideration and represents amounts receivable for goods or services provided in the normal course of business. The price is allocated to each unit in the series as each unit is substantially the same and depicts the same pattern of transfer to the customer.

3.16 New accounting standards

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company adopted IFRS 2 on January 1, 2018 and did not have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15.

The Company applies a practical expedient and does not disclose quantitative or qualitative information on remaining performance obligations that have an original duration of one year or less. Sunshine also applies a practical expedient that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

The IASB issued IFRS 9 Financial Instruments, which was effective January 1, 2018 and replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The accounting treatment of financial liabilities in IFRS 9 is essentially unchanged from IAS 39, except for financial liabilities designated at fair value through profit or loss, whereby an entity can recognize the portion of the change in fair value related to the change in the entity's own credit risk through other comprehensive income rather than net earnings. The standard also introduces a new expected credit loss impairment model

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for financial assets. In addition, IFRS 9 incorporates new hedge accounting requirements that more closely align with risk management activities. An amendment to IFRS 9 requires debt modifications to be discounted at the original effective interest rate of the debt rather than a revised effective interest rate as was required under IAS 39. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements.

Trade receivables are impacted under IFRS 9, as the Company holds the receivables with the sole intention of collecting contractual cash flows. There were no significant changes to the closing impairment allowance for financial assets determined in accordance with IAS 39 and the expected credit loss allowance determined in accordance with IFRS 9 as at January 1, 2018.

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

Future accounting policy changes

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 will be applied by the Company on January 1, 2019 and is currently evaluating the impact of the standard on the Company's financial statements.

4. TRADE AND OTHER RECEIVABLES

	December 31, 2018		December 31, 2017
Trade	\$ 2,422	\$	1,548
Accruals and other receivables	11,035		3,377
Goods and services taxes receivable	-		7
	13,457	\$	4,932
	13,457	\$	4,932

The Company allows an average credit period of 30 days to its trade customers. The majority of the credit exposure on accounts receivable at December 31, 2018 pertains to accrued revenue for December 2018 production volumes. Sunshine transacts with a number of oil and natural gas marketing companies, and the marketing companies typically remit amounts to Sunshine by the 25th day of the month following production. The following is an aged analysis of trade receivables at the end of the reporting period:

	December 31, 2018		December 31, 2017
0 - 30 days	\$ 646	\$	119
31 - 60 days	4		-
61 - 90 days	3		3
>90 days	1,769		1,426
	2,422	\$	1,548
	2,422	\$	1,548

Sunshine had historically very low bad debt expense about 1.9%. Applying a 1.9% expected credit loss to the Company's trade receivables balance of \$2.4 million as at December 31, 2018, would result in the recognition of \$0.05 million in expected credit losses. Therefore, application of this part of the standard on the Company is not significant. No provision has been recorded for expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. EXPLORATION AND EVALUATION

Balance, December 31, 2016	\$	291,716
Capital expenditures		1,562
Non-cash expenditures ¹		(51)
Impairment loss		(25,000)
Balance, December 31, 2017	\$	268,227
Capital expenditures		1,511
Non-cash expenditures ¹		(520)
Balance, December 31, 2018	\$	269,218

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

As at December 31, 2018, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. The significant indicator of impairment was the Company's inability to make any material capital expenditures other than on the West Ells property under the debt agreement, and the significant decline in market capitalization.

For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life.

Recoverable amount was based on the FVLCD model using the range between the median land sale price and the mean land sale price of \$256 per acre to \$444 per acre, observed in Northern Alberta for similar properties.

For the year ended December 31, 2018, the Company did not recognize an impairment loss as the estimated recoverable amount exceeded the carrying value. A 0.5% change in the land sale prices would not change the impairment assessment of the E&E properties. The FVLCD model used is considered a level 2 fair value technique based on the observable and unobservable inputs used.

2017 Impairment

As at December 31, 2017, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. Significant indicators of impairment were downward revision of reserves and resources, decline in forward commodity benchmark prices and the Company's inability to make any capital expenditures other than West Ells property under the debt agreement. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life.

Recoverable amount was based on the FVLCD model using the median land sale price of \$270 per acre, observed in Northern Alberta for similar properties. For the year ended December 31, 2017, the Company recognized an impairment loss of \$25 million on its E&E Assets as the estimated recoverable amount exceeded the carrying value. The recoverable amount was estimated to be \$268.2 million.

A 0.5% change in the land sale prices would change the impairment by \$1.3 million. The FVLCD model used is considered a level 2 fair value technique based on the observable and unobservable inputs used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	Crude oil assets	Corporate assets	Total
Cost			
Balance, December 31, 2016	887,821	4,637	892,458
Capital expenditures	6,984	670	7,654
Non-cash expenditures ¹	(33)	-	(33)
Balance, December 31, 2017	894,772	5,307	900,079
Capital expenditures	1,291	98	1,389
Non-cash expenditures ¹	(2,334)	-	(2,334)
Balance, December 31, 2018	893,729	5,405	899,134

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

	Crude oil assets	Corporate assets	Total
Accumulated depletion, depreciation and impairment			
Balance, December 31, 2016	205,000	2,927	207,927
Depletion and depreciation expense	14,183	553	14,736
Impairment loss	170,000	-	170,000
Balance, December 31, 2017	389,183	3,480	392,663
Depletion and depreciation expense	13,134	522	13,656
Balance, December 31, 2018	402,317	4,002	406,319
Carrying value, December 31, 2017	505,589	1,827	507,416
Carrying value, December 31, 2018	491,412	1,403	492,815

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 twelve months ended December 31, 2018.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2018 Sunshine's net asset value was greater than its market capitalization. As such, an impairment test was conducted over the West Ells; however no impairment was recognized as the estimated recoverable amount of exceeded its carrying value.

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants ("GLJ") as of December 31, 2018. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2018, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at December 31, 2018 was 8.25% based on the specific risk to the assets in West Ells

The recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions. As at December 31, 2018, holding all other variables in the FVLCD calculation for each CGU constant. if the discount rate increased by 0.5%, the impairment of the West Ells CGU would increase by approximately \$20 million; and if the forecast combined average realized price decreased by 1%, the impairment of the West Ells CGU would increase by approximately \$28 million.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @ Cushing \$/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2019	2	0.750	56.25	47.67	37.65	1.85
2020	2	0.770	63.00	58.44	51.21	2.29
2021	2	0.790	67.00	65.82	59.51	2.67
2022	2	0.810	70.00	67.90	61.62	2.90
2023	2	0.820	72.50	70.12	63.82	3.14
2024	2	0.825	75.00	72.73	66.45	3.23
2025	2	0.825	77.50	75.76	69.48	3.34
2026	2	0.825	80.41	79.28	73.01	3.41
2027	2	0.825	82.02	81.24	74.96	3.48
2028	2	0.825	83.66	83.22	76.95	3.54
2029+	escalate oil, gas and product prices at 2% per year thereafter					

2017 Impairment

As at December 31, 2017 the Company reviewed the West Ells CGU for circumstances that indicated the asset may be impaired due to a significant and sustained decline in forward commodity benchmark prices, compared to those at December 31, 2016, resulting in an impairment of \$ 170 million (December 31, 2016 - \$Nil). The recoverable amount was estimated to be \$395.5 million.

The recoverable amount of the West Ells CGU as at December 31, 2017 was determined using FVLCD model, with the assumptions that follow. Reserves value was based on the Company's December 31, 2017 reserves report as prepared by its independent reserve engineer. In assessing FVLCD the recoverable amount of the West Ells CGU was estimated based on proved plus probable reserves using a post-tax discount rate of 8.5 percent. Key input estimates used in the determination of cash flows from West Ells reserves included: quantities of reserves and future production; deferred income tax liability; forward commodity pricing as prepared by independent reserve engineer; development, operating and abandonment costs; royalty obligations and discount and risk rates. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The results of the Company's impairment assessment on West Ells are sensitive to changes in any of the key input estimates of which changes could decrease or increase the recoverable amount of the asset and result in additional impairment charges or recovery of those impairments. A 0.5% increase or decrease in the discount rate would increase the impairment by \$34.5 million or decrease the impairment by \$31.1 million, respectively.

Assuming all the same assumptions as above, a 1% increase or decrease in the forecast commodity prices would decrease the impairment by \$13 million or increase the impairment by \$7 million, respectively.

The FVLCD calculation assumes the following forecast oil prices in, which were based on the December 31, 2017 price decks prepared by the Company's independent reserve engineer.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @ Cushing \$/US/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2018	2	0.790	59.00	48.89	39.63	2.20
2019	2	0.790	59.00	53.16	45.71	2.54
2020	2	0.800	60.00	56.25	49.81	2.88
2021	2	0.810	63.00	59.26	52.89	3.24
2022	2	0.820	66.00	62.20	55.89	3.47
2023	2	0.830	69.00	65.06	58.82	3.58
2024	2	0.830	72.00	68.67	62.43	3.66
2025	2	0.830	75.00	72.29	66.05	3.73
2026	2	0.830	77.33	75.10	68.86	3.80
2027	2	0.830	78.88	76.96	70.72	3.88
2028+	escalate oil, gas and product prices at 2% per year thereafter					

7. TRADE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Trade	\$ 28,262	\$ 23,506
Accrued liabilities	154,875	96,810
	\$ 183,137	\$ 120,316

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

	December 31, 2018	December 31, 2017
Trade		
0 - 30 days	\$ 2,437	\$ 2,163
31 - 60 days	1,346	117
61 - 90 days	1,442	222
> 90 days	23,037	21,004
	28,262	23,506
Accrued liabilities	154,875	96,810
	\$ 183,137	\$ 120,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. SENIOR NOTES

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 is to obtain financing of USD \$5.0 million within 45 days after signing the Amended FA;
- The Company is to obtain financing of USD \$5.0 million every quarter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 the repayment requirements of US \$1.8 million on October 30, 2017, US \$5.0 million on February 1, 2018 and US \$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.

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 December 31, 2018, the Company had incurred unsecured Permitted Debt for a total of US\$10.7 million (CAD\$14.6 million equivalent).

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 December 31, 2018, the Company had incurred \$14.7 million (US \$10.8 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 = \$1.3642 CAD.

During the year the Company entered into various unsecured bonds agreements with third party lenders for a total proceeds of \$ 21.0 million (2017: \$ 3.452 million). These amounts were mainly received in RMB and HKD. The instruments bear interest of 10% to 20% per annum and have a potential maturity date of December 31, 2019. These bonds and loan balances are not subject to any material financial covenants.

	December 31, 2018		December 31, 2017
Opening balance	\$ 3,452		
Bonds	21,010	\$	3,452
Other loans	9,813		
Other Loan Receivables	(9,813)		
Balance, end of year	\$ 24,462	\$	3,452

During the year, 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	Interest rate (%)
7-Jun-18	8,169,000.00	10,000,000.00	0%
18-Oct-18	43,443,220	48,913,554	0%

The Company provided RMB as a collateral to the loan amount received in HKD from Zhengwei. The Company has to repay the HKD to receive RMB from Zhengwei. The Company recorded this transaction on a gross basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. PROVISIONS

	December 31, 2018		December 31, 2017
Decommissioning obligations (Note 9.1)	\$ 48,739	\$	50,481
	\$ 48,739	\$	50,481
Presented as:			
Provisions (non-current)	\$ 48,739	\$	50,481

9.1 Decommissioning obligations

As at December 31, 2018, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$77.0 million (December 31, 2017 - \$78.6 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate from 1.64% to 2.36% per annum and inflated using an inflation rate of 2.0% per annum.

	December 31, 2018		December 31, 2017
Balance, beginning of year	\$ 50,481	\$	49,488
Effect of changes in discount rate	(2,854)		(102)
Unwinding of discount rate	1,112		1,095
Balance, end of year	\$ 48,739	\$	50,481

10. INCOME TAXES

10.1 Income taxes recognized in the Statement of Operations

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rate of 27.0% (2017 - 27.0%) to earnings before income taxes for the following reasons:

	December 31, 2018		December 31, 2017
Net loss before taxes	\$ (126,996)	\$	(281,852)
Tax rate (%)	27%		27.0%
Expected income tax recovery	(34,289)		(76,100)
Effect of expenses that are not deductible in determining taxable profit:			
Share based payment expense	1,082		876
Capital portion of foreign exchange	3,043		(2,347)
Share issues costs	(1,073)		(981)
Change in deferred tax benefits not recognized	31,236		78,552
Income tax recovery	\$ -	\$	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10.2 Deferred tax balances

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

	December 31, 2018	December 31, 2017
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	\$ (83,667)	\$ (109,512)
Decommissioning liabilities	13,160	13,630
Share issue costs	702	1,705
Non-capital losses	299,767	258,818
Total Debt	3,147	2,945
Deferred tax benefits not recognized	(233,108)	(167,586)
	\$ -	\$ -

10.3 Tax pools

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

	December 31, 2018	December 31, 2017
Canadian development expense	\$ 27,910	38,262
Canadian exploration expense	230,980	230,953
Undepreciated capital cost	193,176	248,162
Non-capital losses	1,110,249	958,584
Share issue costs	2,599	6,313
	\$ 1,564,914	1,482,274

The Company's non-capital losses of \$1,110,249 (December 31, 2017 - \$958,584), expire between 2029 and 2038.

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; 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

	December 31, 2018	December 31, 2017
Common shares	\$ 1,293,379	\$ 1,275,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.1 Common shares

	December 31, 2018		December 31, 2017	
	Number of shares	\$	Number of shares	\$
Balance, beginning of year	5,627,877,613	1,275,008	5,002,601,358	1,247,302
Private placements – general mandate	507,969,011	18,631	625,276,255	28,311
Share issue costs, net of deferred tax (\$Nil)	-	(260)	-	(605)
Balance, end of year	6,135,846,624	1,293,379	5,627,877,613	1,275,008

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

General mandate

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 placement.

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 \$4.79 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 will be allotted and issued 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 were exercised. As such, all Placing CB were redeemed by the Corporation 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 issued 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 the Placing CB to convert the whole principal amount of the Placing CB 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 pursuant to the terms and conditions of the Placing CB.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

2017 activity

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

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

On December 28, 2016, the Company entered into a subscription agreement for a total of up to 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HKD \$0.29 per Common Share (approximately CAD \$0.048 per Common Share), which in the aggregate amounts to gross proceeds of HKD \$43.5 million (approximately CAD \$7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD \$0.29 (approximately CAD \$0.050 per Common Share). The Company received total gross proceeds of HKD \$11.6 million (approximately CAD \$2.0 million). The subscription agreement expired on the date of this announcement and hence no further closings occurred.

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

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

On October 18, 2017 the Company entered into a subscription agreement for a total of 8,934,755 class "A" common shares at a price of HKD \$0.257 per share (approximately CAD \$0.041 per common share), for gross proceeds of HKD \$2.3 million (approximately CAD \$0.4 million). On October 31, 2017 the Company completed the closing of this subscription agreement. This subscription agreement was entered into for settlement of indebtedness with an independent third party.

On December 14, 2017 the Company entered into a subscription agreement for a total of 60,606,500 class "A" common shares at a price of HKD \$0.264 per share (approximately CAD \$0.043 per common share), for gross proceeds of HKD \$16 million (approximately CAD \$2.6 million). On December 20, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD \$482,319 (approximately CAD \$0.08 million), was incurred in relation to the Closing.

Specific mandate

2017 activity

On June 5, 2017, the Company entered into a subscription agreement with Prime Union at the issue price of HKD \$0.234 per Common Shares (approximately CAD \$0.041 per Common Share) for an aggregate cash consideration of HK \$106.5 million (approximately CAD \$18.5 million). Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company. The subscription would be issued pursuant to the Special Mandate to be sought from the Independent Shareholders at Special General Meeting ("SGM"). On August 4, the SGM was held in Sunshine Hong Kong office, and the subscription agreement resolution was duly passed as an ordinary resolution. The subscription agreement lapsed on August 28, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. SHARE-BASED COMPENSATION

12.1 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.

12.2 Fair value of share options granted in the year

The weighted average fair value of the share options granted for the year ended December 31, 2018 was \$0.04 (year ended December 31, 2017 - \$0.05). Options valued priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2018 and 2017. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 15.39%.

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

Input Variables	December 31, 2018	December 31, 2017
Grant date share price (\$)	0.04-0.04	0.044-0.05
Exercise Price (\$)	0.04-0.04	0.044-0.05
Expected volatility (%)	61.87-61.87	73.22-74.72
Option life (years)	2.88-2.88	3.76-3.79
Risk-free interest rate (%)	1.95-1.95	0.93-1.23
Expected forfeitures (%)	15.39-15.39	14.64-14.76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.3 Movements in stock options

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

	December 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance, beginning of period	195,435,525	0.09	258,740,469	0.13
Granted	315,000,000	0.04	14,069,058	0.05
Forfeited	(17,805,743)	0.08	(62,604,342)	0.10
Expired	(1,623,901)	0.08	(14,769,660)	0.35
Balance, end of period	491,005,881	0.06	195,435,525	0.09
Exercisable, end of period	277,150,776	0.07	131,483,485	0.10

As at December 31, 2018, stock options outstanding had a weighted average remaining contractual life of 3.8 years (December 31, 2017 – 3.6 years). The Company granted 315,000,000 stock options during the twelve months ended December 31, 2018.

12.4 Share-based compensation

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

(\$ thousands)	December 31, 2018			December 31, 2017		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Stock Options	4,009	-	4,009	3,260	16	3,244

13. PETROLEUM REVENUE, NET OF ROYALTIES

	December 31, 2018	December 31, 2017
Petroleum sales	\$ 37,568	\$ 33,902
Royalties	(561)	(268)
Balance, end of year	\$ 37,007	\$ 33,634

- Petroleum revenue, net of royalties for twelve month ended December 31, 2017 only includes ten months from March 1, 2017 to December 31,

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 in pre-payout.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Petroleum sales by product

	December 31, 2018		December 31, 2017
Petroleum sales	\$ 37,568	\$	33,902
Balance, end of year	\$ 37,568	\$	33,902

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.

14. OTHER INCOME

	December 31, 2018		December 31, 2017
Interest income	\$ 8	\$	10
Balance, end of year	\$ 8	\$	10

15. GENERAL AND ADMINISTRATIVE COSTS

	December 31, 2018		December 31, 2017
Salaries, consultants and benefits	\$ 6,858	\$	8,588
Rent	2,074		2,162
Legal and audit	964		1,340
Other	2,706		3,656
Balance, end of year	\$ 12,602	\$	15,746

Effective March 1, 2017, the Company ceased the capitalization of portions of the general and administrative costs. For the twelve months ended December 31, 2017, the Company capitalized a portion of the general and administrative cost for the first two months of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. FINANCE COSTS

	December 31, 2018	December 31, 2017
Interest expense on senior secured notes	\$ 36,991	\$ 40,459
Interest expense on other loans	731	123
Redemption/yield maintenance premium	13,316	17,695
Financing related costs	1,019	978
Other interest expense/(recovery)	2,180	873
Unwinding of discounts on provisions	1,112	1,095
	\$ 55,349	\$ 61,223
Balance, end of year	\$ 55,349	\$ 61,223

17. LOSS PER SHARE

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

	December 31, 2018	December 31, 2017
Basic and diluted – Class "A" common shares	5,944,543,530	5,423,270,696
Loss per share	\$ 0.02	\$ 0.05

18. Financial instruments

18.1 Capital risk management

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

The Company's strategy is to access sufficient capital, through equity issuances, joint ventures and the utilization of debt, in order to maintain a capital base for the objectives of maintaining financial flexibility and to sustain the future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. The Company expects its current capital resources will not be sufficient to complete its development plans through the next twelve months and will be required to raise additional funds through future equity or debt financings, a joint venture or a sale of assets. The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Group's ability to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2018	December 31, 2017
Working capital deficiency	\$ 461,341	\$ 368,593
Shareholders' equity	251,953	356,569
	\$ 713,294	\$ 725,162

The working capital deficiency of \$461.3 million at December 31, 2018, includes the \$271.0 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the year ended December 31, 2018.

18.2 Categories of financial instruments

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

	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash, prepaid expenses, deposits and trade and other receivables	\$ 17,248	\$ 17,248	9,713	9,713
	17,248	17,248	9,713	9,713
Financial liabilities				
Trade and accrued liabilities	183,137	183,137	120,316	120,316
Debt	295,452	295,452	257,990	257,990
	\$ 478,589	\$ 478,589	378,306	378,306

18.3 Fair value of financial instruments

The fair value of cash, prepaid expenses, 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.

18.4 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18.5 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.

18.6 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, HK dollars and/or Chinese renminbi. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2018.

If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at December 31, 2018 would have been impacted by Nil and the carrying value of the debt at December 31, 2018 would have been impacted by \$2.7 million. At December 31, 2018, the Company held approximately US \$0.01 million or \$0.015 million of cash, using the December 31, 2018 exchange rate of 1.3642, 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 December 31, 2018 would have been impacted by Nil and the carrying value of the debt at December 31, 2018 would have been impacted by \$0.05 million. At December 31, 2018, the Company held, after recent equity and bond closings, approximately HKD \$0.2 million or \$0.03 million using the December 31, 2018 exchange rate of 5.7408, 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 December 31, 2018 would have been impacted by approximately Nil. At December 31, 2018, the Company held approximately CNY \$0.58 million or \$0.12 million using the December 31, 2018 exchange rate of 5.0429, as cash in the Company's CNY bank accounts.

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

	December 31, 2018	December 31, 2017
Unrealized foreign exchange loss /(gain) on translation of:		
U.S. denominated senior secured notes	\$ 21,791	(17,484)
H.K. denominated loan	753	(149)
Accrued Interest Payable	8,536	-
Shareholder's Loan	-	(60)
Foreign currency denominated cash balances	17	445
Foreign currency denominated accounts payable balances	13	94
	<u>31,110</u>	<u>(17,154)</u>
Realized foreign exchange loss/(gain)	<u>(135)</u>	<u>6</u>
Total foreign exchange loss/(gain)	<u>\$ 30,975</u>	<u>(17,148)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18.7 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 December 31, 2018, the Company does not have any floating rate debt.

The Company's cash 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 year ended December 31, 2018, the interest rate earned on cash was between 0.1% and 1.55%.

18.8 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 December 31, 2018, the Company's receivables consisted of 2% from Goods and Services Tax receivable, Nil from joint interest billing receivable and 98% from other receivables (December 31, 2017 – Nil from Goods and Services Tax receivable, 26% from joint interest billing receivable and 74% from other receivables).

At December 31, 2018, there was no allowance for doubtful accounts receivable and the Company wrote off Nil million of receivables (December 31, 2017 - \$0.1 million). The Company considers any amounts outstanding in excess of 30 days past due.

18.9 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 December 31, 2018, the Company had negative working capital of \$461.3 million and an accumulated deficit of \$1,116.0 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 December 31, 2018, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	\$ 183,137	\$ 183,137	\$ -
Debt ¹	295,452	295,452	-
	\$ 478,589	\$ 478,589	\$ -

- Principal amount of Notes and loans based on the year end exchange rate of \$1 US = 1.3642 CAD and \$1HKD = \$0.1742 CAD. Debt is due on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS

19.1 Trading transactions

For the twelve months ended December 31, 2018, a consulting company, to which a director of Sunshine is related, charged the Company \$0.6 million (December 31, 2017 – \$0.6 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,687,377,000 common shares of the Company which represents approximately 27.51% of the Company's outstanding common shares.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan, the total loans amount were HKD \$33.7 million (approximately CAD \$5.4 million). As at December 31, 2018, all the loans and interests were paid in full.

On June 1, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10.0% per annum and required repayment in full within three months from the date of the receipt of the loan. The total loan amount was HKD \$14.2 million (approximately CAD \$2.4 million). As at December 31, 2018, the loan and interests were paid in full.

On August 11, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10.0% per annum and required repayment in full within three months from the date of the receipt of the loan. The total loan amount was about HKD \$9.0 million (approximately CAD \$1.5 million). As at December 31, 2018, the loan and interests were paid in full.

19.2 Compensation of key management personnel and directors

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

	December 31, 2018	December 31, 2017
Directors' fees ¹	\$ 606	690
Salaries and allowances	2,481	3,591
Share-based compensation	3,929	2,875
	<hr/>	<hr/>
	\$ 7,016	7,156

1. For the period ended December 31, 2018, this number reflects accrued fees of \$0.2 million (2017- \$0.2 million). Refer to the appendix A3 for additional director fees disclosure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Operating lease arrangements

Payments recognised as an expense

	December 31, 2018	December 31, 2017
Minimum lease payments	\$ 2,049	\$ 2,282

21. COMMITMENTS AND CONTINGENCIES

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

	Total	2019	2020	2021	2022	2023	Thereafter
Repayment of debt ¹	\$ 270,990	270,990	-	-	-	-	-
Interest payments on debt ²	15,808	15,808	-	-	-	-	-
Redemption premium ³	-	-	-	-	-	-	-
Loans ⁴	14,649	14,649	-	-	-	-	-
Drilling, other equipment and contracts	1,426	670	247	247	132	104	26
Lease rentals ⁵	6,478	1,400	1,399	1,399	1,256	316	708
Office leases	2,590	1,468	700	390	32	-	-
	\$ 311,941	304,985	2,346	2,036	1,420	420	734

1. Principal amount of Notes based on the period end exchange rate of \$1US=\$1.3642 CAD and a maturity date of August 1, 2019.
2. Based on 10% on principal amount and a maturity date of August 1, 2019 less the interest accrued to December 31, 2018, at the period end exchange rate of \$1USD = \$1.3642 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 (3% and 6% on principal amount of the debt) based on the period exchange rate of \$1 HKD = \$0.1742 CAD.
5. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for \$40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the Consolidated Financial Statements for the year ended December 31, 2018 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

The Company received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016 and 2017 municipal property taxes of \$6.1 million. The Company was also charged with overdue penalties of \$1.3 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, negotiations are still ongoing and the Company remains positive in the discussion with RMWB. The Company believes that it has made adequate provision in the financial statements against this demand notice including the outstanding balance for 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2018, the Company had incurred \$14.7 million (US \$10.8 million equivalent using the period end exchange rate) in liens against them during the ordinary course of business.

22. SUPPLEMENTAL CASH FLOW DISCLOSURES

Non-cash transactions

On March 1, 2017, the Company had ceased capitalization of the general and administrative costs including share-based compensation and finance costs (Notes 5 and 6).

Supplemental cash flow disclosures

	December 31, 2018	December 31, 2017
Cash provided by (used in):		
Trade and other receivables	\$ 1,288	(2,278)
Prepaid expenses and deposits	(2,098)	3,944
AP Accruals	10,023	(3,724)
Debt settlement	8,724	(581)
AP Foreign Exchange changes	(8,549)	-
	\$ 9,388	(2,639)
Changes in non-cash working capital relating to:		
<i>Operating activities</i>		
Trade and other receivables	\$ 1,288	(2,278)
Prepaid expenses and deposits	(2,098)	3,944
Trade and other payables	1,756	518
	\$ 946	2,184
<i>Investing activities</i>		
Property, plant and equipment	(282)	(4,823)
<i>Financing activities</i>		
Share issue costs, IPO costs and finance costs	8,724	-
	\$ 9,388	(2,639)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

		2018
Balance, December 31, 2017	\$	257,990
Changes in cash items -		
Payment of senior notes		-
Proceeds of bonds		21,301
Payments of bonds		(10,857)
Proceeds of shareholder loans		3,843
Payments of shareholder loans		(9,182)
Changes in non-cash items -		
Unrealized loss / (gain) on senior notes foreign exchange		21,791
Unrealized loss / (gain) on other loans foreign exchange		753
Unrealized loss / (gain) on shareholder loans foreign exchange		
		285,639
Balance, December 31, 2018	\$	285,639

23. SUBSEQUENT EVENTS

On February 27, 2019 the company received another 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 subsequent to the year end. The Company is planning to file an appeal against such notice and will be contesting this notice in Court as well.

24. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 18, 2019.

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the SEHK and not shown elsewhere in these consolidated financial statements is as follows:

A1. SUNSHINE OILSANDS LTD. NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	December 31, 2018	December 31, 2017
<i>Non-current assets</i>		
Property, plant and equipment	\$ 492,288	\$ 506,741
Exploration and evaluation assets	269,218	268,227
Amounts due from subsidiary	10,935	8,967
	772,441	783,935
<i>Current assets</i>		
Trade and other receivables	12,431	4,932
Prepaid expenses and deposits	2,881	813
Cash	451	1,404
	15,763	7,149
<i>Current liabilities</i>		
Trade and other payables	183,137	120,315
Other Liabilities	-	3,452
Amount due to subsidiary	2,761	2,544
Bonds	24,462	-
Shareholder loans	-	5,339
Senior notes	270,990	249,199
	481,350	380,849
Net current assets	(465,587)	(373,700)
Total assets less current liabilities	306,854	410,235
<i>Non-current liabilities</i>		
Provisions	48,739	50,481
	48,739	50,481
Net assets	\$ 258,115	\$ 359,754
<i>Capital and reserves</i>		
Share capital	\$ 1,293,379	\$ 1,275,008
Reserve for share-based compensation	74,531	70,522
Deficit	(1,109,795)	(985,776)
	\$ 258,115	\$ 359,754

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A2. DIRECTORS' EMOLUMENTS AND OTHER STAFF COSTS

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

	December 31, 2018	December 31, 2017
<i>Directors' emoluments</i>		
Directors' fees	\$ 606	\$ 690
Salaries and allowances	2,277	3,591
Share-based compensation	3,929	2,875
	6,812	7,156
<i>Other staff costs</i>		
Salaries and other benefits	3,506	4,368
Contribution to retirement benefit scheme	265	171
Share-based compensation	80	369
	3,851	4,908
Total staff costs, including directors' emoluments	10,867	12,064
Less: staff costs capitalized to qualifying assets	-	249
	\$ 10,867	\$ 11,815

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A3. DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are as follows:

For the twelve months ended December 31, 2018						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	\$ 85	\$ 600	\$ -	\$ 3,082	\$ -	\$ 3,767
Michael Hibberd	71	550	-	339	-	960
Hong Luo	49	-	-	145	-	194
Qiping Men ¹	27	727	-	145	-	899
Raymond Fong	58	-	-	15	-	73
Yi He	55	-	-	15	-	70
Joanne Yan	67	-	-	15	-	82
Xijuan Jiang	51	-	-	4	-	55
Gloria Ho	50	400	-	169	-	619
Ms. Linna Liu	40	-	-	-	-	40
Mr. Jingfeng Liu ²	53	-	-	-	-	53
	\$ 606	\$ 2,277	\$ -	\$ 3,929	\$ -	\$ 6,812

1. Mr. Men ceased as director on May 7, 2018.
2. Mr. Jingfeng Liu ceased as the non-executive Director of the Company on March 7, 2019.

For the twelve months ended December 31, 2017						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	\$ 84	\$ 600	\$ -	\$ 957	\$ -	\$ 1,641
Michael Hibberd	77	550	-	957	-	1,584
Hong Luo	52	385	-	410	-	847
Qi Jiang ⁵	31	1,192	-	(117)	-	1,106
Qiping Men	58	460	-	410	-	928
Jianzong Chen ¹	10	-	-	12	-	22
Gerald Stevenson ⁶	42	-	-	38	-	80
Raymond Fong	61	-	-	38	-	99
Yi He	64	-	-	38	-	102
Joanne Yan	69	-	-	38	-	107
Xijuan Jiang	56	-	-	12	-	68
Gloria Ho ²	25	404	-	82	-	511
Ms. Linna Liu ³	33	-	-	-	-	33
Mr. Jingfeng Liu ⁴	28	-	-	-	-	28
	\$ 690	\$ 3,591	\$ -	\$ 2,875	\$ -	\$ 7,156

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

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A4. FIVE HIGHEST PAID INDIVIDUALS

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

	December 31, 2018	December 31, 2017
HK\$ nil to HK\$1,000,000	-	-
HK\$1,000,001 to HK\$1,500,000	1	-
HK\$1,500,001 to HK\$2,000,000	-	-
HK\$2,000,001 to HK\$2,500,000	-	-
HK\$2,500,001 to HK\$3,000,000	-	-
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	-	-
HK\$4,500,001 to HK\$5,000,000	-	-
HK\$5,000,001 to HK\$5,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	-	-
HK\$6,500,001 to HK\$7,000,000	-	1
>HK\$7,000,000	1	2

For the year ended December 31, 2018, the conversion factor used in the above table is 1C\$ = 6.0499 HKD (year ended December 31, 2017, 1C\$ = 6.0095 HKD)

The five highest paid individuals includes four directors of the Company and three key management executives of the Company for the year ended December 31, 2018 (for the year ended December 31, 2017 there were five directors and four key management executives).

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A5. SENIOR MANAGEMENT REMUNERATION BY BAND

The emoluments fell within the following bands:

	December 31, 2018	December 31, 2017
HK\$ nil to HK\$1,000,000	-	-
HK\$1,000,001 to HK\$1,500,000	2	-
HK\$1,500,001 to HK\$2,000,000	-	-
HK\$2,000,001 to HK\$2,500,000	-	-
HK\$2,500,001 to HK\$3,000,000	-	-
HK\$3,000,001 to HK\$3,500,000	-	1
HK\$3,500,001 to HK\$4,000,000	1	-
HK\$4,000,001 to HK\$4,500,000	-	-
HK\$4,500,001 to HK\$5,000,000	-	-
HK\$5,000,001 to HK\$5,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	-	1
HK\$6,000,001 to HK\$6,500,000	-	-
HK\$6,500,001 to HK\$7,000,000	-	1
>HK\$7,000,000	1	1
	1	1

For the year ended December 31, 2018, the conversion factor used in the above table is 1C\$ = 6.0499 HKD (year ended December 31, 2017, 1C\$ = 6.0095 HKD).

The table above includes the remuneration for the directors of the Company. As at December 31, 2018, \$0.8 million (2017 - \$0.2 million) was the total payable to the directors and this was included in trade and accrued liabilities.

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Executive Directors:

Mr. Kwok Ping Sun (*Chairman*)
Ms. Gloria Pui Yun Ho (*Chief Financial Officer*)

Non-Executive Directors:

Mr. Michael J. Hibberd (*Vice-Chairman*)
Mr. Hong Luo
Ms. Xijuan Jiang
Ms. Linna Liu

Independent Non-Executive Directors:

Mr. Raymond S. Fong
Mr. Yi He
Ms. Joanne Yan

COMPANY SECRETARY:

Ms. Man Ngan Chow

AUTHORIZED REPRESENTATIVES:

Mr. Kwok Ping Sun
Ms. Man Ngan Chow

AUDITORS:

PricewaterhouseCoopers LLP

AUDIT COMMITTEE:

Ms. Joanne Yan (*Chairlady*)
Mr. Raymond S. Fong
Mr. Yi He

COMPENSATION COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)
Mr. Raymond S. Fong
Ms. Joanne Yan

RESERVES COMMITTEE:

Mr. Raymond S. Fong (*Chairman*)
Mr. Kwok Ping Sun
Mr. Yi He

CORPORATE GOVERNANCE COMMITTEE:

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

CORPORATE HEADQUARTERS:

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Email: information@sunshineoilsands.com

REGISTERED OFFICE IN ALBERTA:

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Email: info@mccarthy.ca

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Email: information@sunshineoilsands.com

Dentons Canada LLP
Robertsons Solicitors

WEBSITE:

www.sunshineoilsands.com

SHARE REGISTRAR IN HONG KONG:

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Shops 1712–1716, 17th Floor, Hopewell Centre,
183 Queen’s Road East, Wanchai Hong Kong
Email: hkinfo@computershare.com.hk

PLACE OF SHARE LISTING AND STOCK CODE:

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SHARE REGISTRAR IN ALBERTA:

Alliance Trust Company
Suite 1010, 407 Second Street SW
Calgary, Alberta,
T2P 2Y3 Canada
Email: inquiries@alliancetrust.ca

COMPETENT PERSONS:

Boury Global Energy Consultants Ltd.
GLJ Petroleum Consultants Ltd.

PRINCIPAL BANKERS:

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