



阳光油砂

SUNSHINE OILSANDS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2021 and 2020



SUNSHINE OILSANDS LTD.

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

| | Notes | June 30, 2021 | December 31, 2020 |
|--|-------|-------------------|-------------------|
| Assets | | | |
| <i>Current assets</i> | | | |
| Cash | | \$ 262 | \$ 838 |
| Trade and other receivables | 4 | 3,278 | 1,636 |
| | | <u>3,540</u> | <u>2,474</u> |
| <i>Non-current assets</i> | | | |
| Other loan receivables | 4 | 11,041 | 12,882 |
| Other receivables | 4 | 6,562 | 6,562 |
| Exploration and evaluation | 5 | 255,593 | 256,195 |
| Property, plant and equipment | 6 | 475,437 | 481,825 |
| Right-of-use assets | 7 | 1,252 | 1,722 |
| | | <u>749,885</u> | <u>759,186</u> |
| | | <u>\$ 753,425</u> | <u>\$ 761,660</u> |
| Liabilities and Shareholders' Equity | | | |
| <i>Current liabilities</i> | | | |
| Trade and accrued liabilities | 8 | \$ 242,188 | \$ 223,711 |
| Other loans | 9.2 | 2,535 | 1,158 |
| Loans from related companies | 21.3 | 38,227 | 32,745 |
| Senior notes | 9.3 | - | 252,911 |
| Lease liabilities | 7 | 1,058 | 993 |
| | | <u>284,008</u> | <u>511,518</u> |
| <i>Non-current liabilities</i> | | | |
| Senior notes | 9.3 | 255,001 | - |
| Bonds | 9.1 | - | 9,306 |
| Other loans | 9.2 | 11,593 | 13,204 |
| Loans from related companies | | - | 263 |
| Lease liabilities | | 318 | 801 |
| Provisions | 10 | 53,749 | 61,148 |
| | | <u>604,669</u> | <u>596,240</u> |
| Shareholders' Equity | | | |
| Share capital | 12 | 1,315,265 | 1,296,814 |
| Convertible bond-conversion options | | - | 4,170 |
| Reserve for share-based compensation | 13.3 | 76,413 | 76,411 |
| Exchange fluctuation reserve | | (494) | (412) |
| Deficit | | (1,242,045) | (1,211,241) |
| Equity attributable to owners of the Company | | <u>149,139</u> | <u>165,742</u> |
| Non-controlling interests | | (383) | (322) |
| | | <u>148,756</u> | <u>165,420</u> |
| | | <u>\$ 753,425</u> | <u>\$ 761,660</u> |

Going concern (Note 2)
Commitments and contingencies (Note 22)
Subsequent events (Note 25)

Approved by the Board

"David Yi He"
Independent Non-Executive Director

"Kwok Ping Sun"
Executive Director

See accompanying notes to the Condensed Consolidated Interim Financial Statements.



SUNSHINE OILSANDS LTD.

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

| | | Three months ended June 30, | | Six months ended June 30, | |
|--|-------|-----------------------------|------------|---------------------------|-----------|
| | Notes | 2021 | 2020 | 2021 | 2020 |
| Revenues and Other Income | | | | | |
| Petroleum sales, net of royalties | 14 | \$ (1) | \$ - | \$ 143 | \$ 3,834 |
| Other income | 16 | - | 14 | | 443 |
| Foreign exchange gains/(losses) | 20.4 | (7,913) | 12,458 | 6,424 | (14,151) |
| | | (7,914) | 12,472 | 6,567 | (9,874) |
| Expenses | | | | | |
| Diluent | | - | 46 | - | 1,282 |
| Transportation | | - | (4) | 43 | 2,375 |
| Operating | | 1,602 | 1,940 | 3,461 | 6,619 |
| Depletion, depreciation and impairment | 6,7 | 281 | 354 | 580 | 2,836 |
| General and administrative | 17 | 1,279 | 1,992 | 2,858 | 4,364 |
| Finance costs | 18 | 11,712 | (6,501) | 25,134 | (352) |
| Stock based compensation | 13.3 | 1 | 127 | 2 | 254 |
| | | \$ 14,875 | \$ (2,046) | \$ 32,044 | \$ 17,378 |
| Gain/(Loss) before income taxes | | (22,789) | 14,518 | (25,477) | (27,252) |
| Income taxes | 11 | - | - | - | - |
| Net gain/(loss) | | (22,789) | 14,518 | (25,477) | (27,252) |
| Less: Net Gain/(Loss) attributable to Non-controlling interests | | 2 | 73 | (61) | (132) |
| Net gain/(loss) and comprehensive gain/(loss) for the year attributable to equity holders of the Group | | (22,787) | 14,591 | (25,538) | (27,120) |
| Basic and diluted gain/(loss) per share | 19 | \$ (0.14) | \$ 0.16 | \$ (0.14) | \$ (0.21) |

See accompanying notes to the Condensed Consolidated Interim Financial Statements

**SUNSHINE OILSANDS LTD.**

| | Share capital | Reserve for share based compensation | Convertible Bond | Exchange fluctuation reserve | Deficit | Total | Non-controlling interests | Total Equity |
|---|---------------------|--------------------------------------|------------------|------------------------------|-----------------------|-------------------|---------------------------|------------------|
| Issue of shares upon exercise of share options | - | - | - | - | - | - | - | - |
| Share option reserve transferred on exercise of stock options | - | - | - | - | - | - | - | - |
| Recognition of share-based payments (note 13.3) | - | 254 | - | - | - | 254 | - | 254 |
| Share issue costs, net of deferred tax (\$Nil) | (33) | - | - | - | - | (33) | - | (33) |
| Six Months Ended June 30, 2020 | \$ 1,296,814 | \$ 76,158 | \$ 4,466 | | \$ (1,223,719) | \$ 153,719 | \$ (205) | \$154,514 |

See accompanying notes to the Condensed Consolidated Interim Financial Statements



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

| | Notes | Three months ended June 30, | | Six months ended June 30, | |
|--|-------|-----------------------------|----------------|---------------------------|----------------|
| | | 2021 | 2020 | 2021 | 2020 |
| <i>Cash flows from operating activities</i> | | | | | |
| Net loss / (gain) | | \$ (22,789) | \$ 14,518 | \$ (25,477) | \$ (27,252) |
| Finance costs | | 11,712 | (6,501) | 25,134 | (352) |
| Unrealized foreign exchange (gains)/losses | 20.4 | 7,911 | (12,466) | (6,426) | 14,127 |
| Other income | | - | (441) | - | (443) |
| Depletion and depreciation | 6.7 | 281 | 354 | 580 | 2,836 |
| Share-based compensation | 13.3 | 1 | 127 | 2 | 254 |
| Movement in non-cash working capital | 24 | 713 | 1,221 | 1,196 | 1,736 |
| Net cash used in operating activities | | (2,171) | (3,188) | (4,991) | (9,094) |
| <i>Cash flows from investing activities</i> | | | | | |
| Other income received | | - | 1 | - | 3 |
| Payments for exploration and evaluation assets | 5 | (463) | (274) | (690) | (500) |
| Payments for property, plant and equipment | 6 | (23) | (157) | (224) | (230) |
| Movement in non-cash working capital | 24 | 119 | (254) | 238 | (115) |
| Net cash provided by (used in) investing activities | | (367) | (684) | (676) | (842) |
| <i>Cash flows from financing activities</i> | | | | | |
| Proceeds from issue of common shares | 12 | - | - | - | - |
| Payment for share issue costs | 12 | - | (15) | (16) | (33) |
| Payment for finance costs | 18 | (430) | (65) | (492) | (880) |
| Payments for the notes principal | | - | - | - | - |
| Proceeds from Bonds | 9.1 | (1) | 4,670 | 630 | 9,128 |
| Payments for Bonds | 9.1 | - | (142) | (546) | (478) |
| Proceeds from shareholder loans | 21.1 | 3,897 | 558 | 10,269 | 771 |
| Repayment of shareholder loans | 21.1 | (864) | - | (4,294) | - |
| Payment of lease liabilities | | (263) | (310) | (529) | (562) |
| Movement in non-cash working capital | 24 | - | (676) | (78) | 1,276 |
| Net cash provided by financing activities | | 2,339 | 4,020 | 4,944 | 9,222 |
| Effect of exchange rate changes on cash held in foreign currency | 20.4 | (8) | (68) | 147 | (70) |
| Net increase / (decrease) in cash | | (207) | 80 | (576) | (784) |
| Cash, beginning of period | | 469 | 390 | 838 | 1,254 |
| Cash, end of period | | \$ 262 | \$ 470 | \$ 262 | \$ 470 |

See accompanying notes to the Condensed Consolidated Interim Financial Statements. .



Notes to Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2021 and 2020

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

1. General information

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

The Group 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. Details of the subsidiaries are set out in note 23.

On April 15, 2019, Sang Xiang Petroleum & Chemical (Hebei) Limited (“Sunshine Hebei”) was incorporated in China and is a joint venture company in which the Company owns 51% interests. The address of the principal place of business for Sunshine Hebei is Techno Building, Level 4, Room 0430, Chengde Hi-Tech Industry Development Zone, Hebei Province.

On March 31, 2020, the Board has decided to temporarily suspend production due to volatility in the international crude oil market, severe decline in crude oil prices, and having considered the fact that the Company’s West Ells production equipment and road need repair, coupled with the outbreak of COVID-19 in Canada.

The Company expects that the temporary suspension will not have a material adverse impact on its operations. Management of the Company will continue to closely monitor developments in the international crude oil market and intends to take appropriate actions accordingly in response to the actual situation, and act in the best interests of the Company and its shareholders as a whole.

2. Basis of preparation

Going Concern

The Condensed Consolidated Interim Financial Statements have been prepared on a basis which asserts that the Group 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 Group 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 Group’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 9) the Group would be unlikely to be able to continue the development of the West Ells project and the Group 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 Group’s assessment of the carrying values of assets and liabilities associated with the West Ells project.

The Group incurred a loss including non-controlling interests of CAD \$25.5 million for the six months ended June 30, 2021, and as at June 30, 2021, the Group had net current liabilities of CAD \$548 million. The Group will need to refinance or restructure its current debt and obtain additional financing in order to meet its near-term operating cash requirements, debt payments and sustaining capital expenditures. The validity of which depends upon that the Group will be able to successfully refinance or restructure its current debt and obtain additional financing to meet its liabilities as they fall due in the foreseeable future.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at June 30, 2021, 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. The timing and extent of forecast capital and operating expenditures is based on the Company's 2021 budget and on management's estimate of expenditures expected to be incurred beyond 2021. The Company has a significant degree of control and flexibility over both the extent and timing of expenditures under its future capital investment program. 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 9.3). Management continually monitors the Company's financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following June 30, 2021.

2.1 Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance. The Condensed Consolidated Interim financial statements have been prepared on the historical cost basis. Any financial instruments are measured at fair value. The Condensed Consolidated Interim financial statements are presented in Canadian Dollars ("\$").

The Condensed Consolidated Interim Financial Statements reflect management's best estimates after giving consideration to likely outcomes. The Group has consistently applied the accounting policies to all periods presented in these financial statements. Certain information and disclosures normally included in the audited annual consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS"), have been condensed or omitted, except for the adoption of IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IFRIC 22 Foreign Currency Transactions and Advance Consideration. Accordingly, these Condensed Consolidated Interim Financial Statements should be read in conjunction with the audited annual Consolidated Financial Statements for the year ended December 31, 2020.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied for the first time the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB").

| | |
|---|--|
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |

The application of other new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

| | |
|---|--|
| IFRS 17 | Insurance Contracts ³ |
| Amendments to IFRS 16 | COVID-19 - Related Rent Concessions ⁵ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture ⁴ |
| Amendments to IAS 39, IFRS4, IFRS 7, IFRS 9 and IFRS 16 | Interest Rate Benchmark Reform - Phase 2 ¹ |
| Amendments to IFRS 3 | Reference to the Conceptual Framework ² |



SUNSHINE OILSANDS LTD.

| | |
|---|---|
| Amendments to IAS 16 | Property, Plant and Equipment - Proceeds before Intended Use ² |
| Amendments to IAS 37 | Onerous contracts: Cost of fulfilling a contract ² |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies ³ |
| Amendments to IAS 8 | Definition of Accounting Estimates ³ |
| Amendments to IAS 1 | Classification of liabilities as Current or Non-current ³ |
| Amendments to IFRSs | Annual Improvements to IFRS 2018 - 2020 cycle ² |

- 1 Effective for annual periods beginning on or after January 1, 2021
- 2 Effective for annual periods beginning on or after January 1, 2022
- 3 Effective for annual periods beginning on or after January 1, 2023
- 4 Effective date not yet been determined
- 5 Effective for annual periods beginning on or after June 1, 2020

The directors of the Company anticipate that, the application of the new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

4. Trade and other receivables

| | June 30, 2021 | December 31, 2020 |
|------------------------------------|---------------|-------------------|
| Trade receivables | \$ - | \$ - |
| Other receivables – current | 1,770 | 1,636 |
| Other loan receivables-non-current | 11,041 | 12,882 |
| Other receivables – non current | 6,562 | 6,562 |
| | \$ 19,373 | \$ 21,080 |

The Group allows an average credit period of 30 days to its trade customers. The Group transacts with a number of oil and natural gas marketing companies, and the marketing companies typically remit amounts to the Group by the 25th day of the month following production.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

As at June 30, 2021, the directors of the Company considered the ECL on trade receivables was insignificant.

5. Exploration and evaluation

| | |
|------------------------------------|------------|
| Balance, December 31, 2019 | \$ 253,144 |
| Capital expenditures | 1,077 |
| Non-cash expenditures ¹ | 1,974 |
| Impairment loss | - |
| Balance, December 31, 2020 | \$ 256,195 |
| Capital expenditures | 690 |
| Non-cash expenditures ¹ | (1,292) |
| Balance, June 30, 2021 | \$ 255,593 |

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

At the end of the reporting period, the Group assessed impairment for its E&E Assets. 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



SUNSHINE OILSANDS LTD.

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 land sale price observed in Northern Alberta for similar properties.

For the six months ended June 30, 2021, the Group did not recognize an impairment loss based on its assessment the estimated recoverable amount exceeded the carrying value.

6. Property, plant and equipment

| | Crude oil assets | | Corporate assets | | Total |
|------------------------------------|------------------|---------|------------------|-------|------------|
| Cost | | | | | |
| Balance, December 31, 2019 | \$ | 894,515 | \$ | 5,487 | \$ 900,002 |
| Disposal of Asset | | (4,850) | | - | (4,850) |
| Capital expenditures | | - | | 397 | 397 |
| Non-cash expenditures ¹ | | 9,762 | | - | 9,761 |
| Exchange alignment | | - | | (2) | (2) |
| Balance, December 31, 2020 | \$ | 899,427 | \$ | 5,882 | \$ 905,309 |
| Capital expenditures | | 249 | | 25 | 224 |
| Non-cash expenditures ¹ | | (6,495) | | - | (6,495) |
| Balance, June 30, 2021 | \$ | 893,180 | \$ | 5,859 | \$ 899,039 |

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, 2019 | \$ | 416,520 | \$ | 4,427 | \$ 420,947 |
| Depletion and depreciation expense | | 2,058 | | 479 | 2,537 |
| Impairment loss | | - | | - | - |
| Balance, December 31, 2020 | \$ | 418,578 | \$ | 4,906 | \$ 423,484 |
| Depletion and depreciation expense | | - | | 118 | 118 |
| Balance, June 30, 2021 | \$ | 418,578 | \$ | 5,024 | \$ 423,602 |
| Carrying value, December 31, 2020 | \$ | 480,849 | \$ | 976 | \$ 481,825 |
| Carrying value, June 30, 2021 | \$ | 474,602 | \$ | 835 | \$ 475,437 |

As at June 30, 2021, the Group did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the West Ells Cash Generating Unit (CGU).

7. Right-of-use Assets and Leases Liabilities

Right-of-use Assets

| | Trucks & Trailers | Offices | Total |
|---------------------------------|-------------------|---------|-------|
| Balance, January 1, 2020 | 648 | 1,436 | 2,084 |
| Lease terminated | (591) | - | (591) |
| Additions | - | 1,198 | 1,198 |
| Depreciation | (57) | (896) | (953) |
| Exchange alignment | - | (16) | (16) |
| December 31, 2020 | - | 1,722 | 1,722 |
| Additions | - | - | - |
| Depreciation | - | (470) | (470) |



| | | | |
|----------------------|---|--------------|--------------|
| June 30, 2021 | - | 1,252 | 1,252 |
|----------------------|---|--------------|--------------|

Leases Liabilities

Balance Sheets

| | June 30, 2021 |
|-------------------|----------------------|
| Lease liabilities | \$ 1,058 |

Cash Flow Summary

| | Six Months Ended June 30, 2021 |
|---------------------------------|---|
| Total cash flow used for leases | \$ 529 |

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

8. Trade and accrued liabilities

| | June 30, 2021 | December 31, 2020 |
|---------------------|----------------------|--------------------------|
| Trade payables | \$ 17,399 | \$ 15,493 |
| Interest payables | 198,668 | 184,972 |
| Other payables | 16,717 | 15,884 |
| Accrued liabilities | 9,404 | 7,362 |
| | \$ 242,188 | \$ 223,711 |

The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting period:

| | June 30, 2021 | December 31, 2020 |
|--------------|----------------------|--------------------------|
| Trade | | |
| 0 - 30 days | \$ 601 | - |
| 31 - 60 days | 375 | - |
| 61 - 90 days | 86 | 554 |
| > 90 days | 16,337 | 14,939 |
| | 17,399 | 15,493 |

9. Debt

9.1 Bonds

| | June 30, 2021 | December 31, 2020 |
|-------------|----------------------|--------------------------|
| Current | \$ - | - |
| Non-current | - | 9,306 |
| | \$ - | \$ 9,306 |

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was completed on 15 June 2020. The entire proceeds was used for financing general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber. The Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on 5 March 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.



9.2 Other loans

| | | June 30, 2021 | | December 31, 2020 | |
|-------------|----|---------------|----|-------------------|--|
| Current | \$ | 2,535 | \$ | 1,158 | |
| Non-current | | 11,593 | | 13,204 | |
| | \$ | 14,128 | \$ | 14,362 | |

As at June 30, 2021, the balances are unsecured interest bearing of 0%-20% (2020: 0-20%) per annum, and of which approximately CAD \$842,000 (2020: \$11,880,000) have a maturity date by December 31, 2021.

Included in the above balance is approximately CAD \$13,286,000 for which the Group and an independent Hong Kong-based investment holding company entered into loan agreements and under which the Group provided Renminbi (“CNY”) loan and received Hong Kong dollar (“HKD”) loan from the investment holding company. The Group has to repay HKD to receive CNY from the investment holding company.

9.3 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”). 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 of terms listed on the Agreement and fully reinstate the Agreement, provided that the Company made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the yield maintenance premium 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;
- The Company 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 the Company, 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 yield maintenance premium to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- Make principal repayments to the Forbearing Holders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

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

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



SUNSHINE OILSANDS LTD.

Some of the Company's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfill the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended FA. 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, to repay notes principal, and any previous outstanding payment commitments. The Company 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 by April 30, 2019 to maintain sufficient liquidity.

On April 24, 2020, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The FRAA covers the period from December 31, 2019 to August 31, 2021 ("Period of Forbearance");
- Same as the Forbearance Reinstatement and Amending Agreement executed on November 1, 2018, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2021, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

On February 5, 2021 (Calgary time), the Company and the Forbearing Holders entered into an interest waiver agreement (the "Interest Waiver Agreement") pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per annum on the outstanding amounts (principal and interests) under the FRAA dated April 24, 2020 (the "Waiver of Interest") which amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

On August 8, 2021, the Company and the Forbearing Holder confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The FRAA covers the period from September 1, 2021 to August 31, 2023 ("Period of Forbearance");
- Same as the Forbearance Reinstatement and Amending Agreement executed on April 24, 2020, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2023, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

The Board believes the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to a reasonable market level.

10. Provisions

| Decommissioning obligations, non-current | June 30, 2021 | | December 31, 2020 | |
|---|----------------------|---------|--------------------------|--------|
| Balance, beginning of year | \$ | 61,148 | \$ | 48,910 |
| Effect of changes in estimates | | (7,788) | | 11,736 |
| Unwinding of discount rate | | 390 | | 502 |
| Balance, end of year | \$ | 53,749 | \$ | 61,148 |

As at June 30, 2021, the Group's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$53.7 million (December 31, 2020 - \$61.1 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate from 1.18% to 2.34% per annum and inflated using an inflation rate of 2.0% per annum

11. Income taxes



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

| | June 30, 2021 | | December 31, 2020 | |
|---|---------------|-----------|-------------------|-----------|
| Deferred tax assets (liabilities) | | | | |
| Exploration and evaluation assets and property, plant and equipment | \$ | (89,146) | \$ | (98,148) |
| Decommissioning liabilities | | 12,632 | | 14,630 |
| Share issue costs | | 311 | | 85 |
| Non-capital losses | | 352,659 | | 464,470 |
| Total Debt | | (5,579) | | (3,035) |
| Deferred tax benefits not recognized | | (270,877) | | (378,002) |
| | \$ | - | \$ | - |

12. Share capital

The Group'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 and fully paid (after share consolidation) | June 30, 2021 | | December 31, 2020 | |
|---|------------------|-----------|-------------------|-----------|
| | Number of shares | \$ | Number of shares | \$ |
| Balance, beginning of year | 129,554,630 | 1,296,814 | 128,111,630 | 1,296,523 |
| Issue of Shares – general mandate | | | 1,443,000 | 324 |
| conversion of convertible bonds | 113,924,051 | 18,467 | 13,242 | |
| Director Share Arrangement | | | - | - |
| Share issue costs, net of deferred tax (\$Nil) | | (16) | - | (33) |
| Balance, end of year | 243,478,681 | 1,310,040 | 129,554,630 | 1,296,814 |

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

2021 activity

In relation to the "Chairman CB" issued on June 15, 2020 (see "2020 activity" for details), Mr. Kwok Ping Sun has made application to the Securities & Futures Commission of Hong Kong ("HKSF") for a Whitewash Waiver. The Whitewash Waiver was conditionally granted by HKSF on March 4, 2021. The Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

2020 activity

On January 3, 2020, the Board proposed to implement a Share Consolidation on the basis that every fifty (50) Existing Shares will be consolidated into one (1) Consolidated Share. The total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation was rounded down to a whole number by cancelling any fractional Shares of the Company arising from the Share Consolidation. The Share Consolidation was conditional upon, among other things, the approval of the Shareholders at the SGM. The Board proposed to change the board lot size for trading on the Stock Exchange from 500 Existing Shares to 1,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

On February 24, 2020, a Special General Meeting approved the Share Consolidation and the Change in Board Lot Size became effective on February 26, 2020.

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class "A" common shares at a price of HKD \$1.31 per share (post-consolidation) for gross proceeds of HKD \$1,896,134.68



(CDN\$323,670.19). On March 5, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

On April 1, 2020, the Company and a wholly owned company held by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds (“Chairman CB”) in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class “A” common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was subsequently completed on 15 June 2020. The entire proceeds will be used for financing its general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber.

13. Share-based compensation

13.1 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 Group’s Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Group’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.

13.2 Movements in stock options

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

| | June 30, 2021 | | December 31, 2020 | |
|------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance, beginning of period | 9,056,001 | 2.68 | 9,165,687 | 2.67 |
| Granted | - | - | - | - |
| Forfeited | - | - | (109,686) | 2.84 |
| Expired | (3,208) | 2.90 | 60,000 | 4.50 |
| Balance, end of period | <u>9,052,793</u> | <u>2.68</u> | <u>9,056,001</u> | <u>2.68</u> |
| Exercisable, end of period | 9,052,793 | 2.68 | 9,056,001 | 2.68 |

Number of options was adjusted on the assumption that the Share Consolidation had been effective in the current year and prior year.

As at June 30, 2021, stock options outstanding had a weighted average remaining contractual life of 1.54 years (December 31, 2020 – 2.7 years).

13.3 Share-based compensation

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

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 |
|--|-------------------------------------|-------------------------------------|
|--|-------------------------------------|-------------------------------------|



SUNSHINE OILSANDS LTD.

| | Expensed | Capitalized | Total | Expensed | Capitalized | Total |
|---------------|----------|-------------|-------|----------|-------------|--------|
| Stock options | \$1 | \$ - | \$1 | \$ 127 | \$ - | \$ 127 |

| | Six months ended June 30, 2021 | | | Six months ended June 30, 2020 | | |
|---------------|-----------------------------------|-------------|-------|-----------------------------------|-------------|--------|
| | Expensed | Capitalized | Total | Expensed | Capitalized | Total |
| Stock options | \$2 | \$ - | \$2 | \$ 254 | \$ - | \$ 254 |

14. Segment information

Information reported to the directors of the Company, being the chief operating decision maker (the “CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of goods provided. No operating segments identified by the CODM has been aggregated in arriving at the reportable segments of the Group.

For management purpose, the Group operates in one business unit based on their products, and has one reportable and operating segment: mining, production and sales of crude oil products. The directors of the Company monitor the revenue of its business unit as a whole based on the monthly sales and delivery reports for the purpose of making decisions about resource allocation and performance assessment.

Information about geographical area

As all of the Group’s revenue is derived from the customers based in the Canada (country of domicile) and majority of the Group’s non-current assets are located in Canada, no geographical information is presented.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

| | June 30, 2021 | June 30, 2020 |
|------------|---------------|---------------|
| Customer A | \$ 143 | \$ 3,834 |

15. Revenue

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------------|-----------------------------|------|---------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| Petroleum sales | \$ - | \$ - | \$ 144 | \$ 3,840 |
| Royalties | (1) | - | (1) | (6) |
| Revenue from contracts with customers | \$ (1) | \$ - | \$ 143 | \$ 3,834 |

All revenue from contracts with customers is derived from Canada and recognized at a point in time.

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 Group to the customer. Revenues are recorded net of crown royalties. Crown royalties are recognized at the time of production.

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.

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



SUNSHINE OILSANDS LTD.

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.

The Group'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.

16. Other income

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------|-----------------------------|-------|---------------------------|--------|
| | 2021 | 2020 | 2021 | 2020 |
| Interest income | \$ - | \$ 1 | \$ - | \$ 3 |
| Other income | - | 13 | - | 440 |
| Balance, end of period | \$ - | \$ 14 | \$ - | \$ 443 |

17. General and administrative costs

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------------|-----------------------------|----------|---------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| Salaries, consultants and benefits | \$ 816 | \$ 1,224 | \$ 1,783 | \$ 2,758 |
| Rent | 53 | 69 | 107 | 78 |
| Legal and audit | 172 | 117 | 443 | 245 |
| Other | 238 | 582 | 525 | 1,283 |
| Balance, end of period | \$ 1,279 | \$ 1,992 | \$ 2,858 | \$ 4,364 |

18. Finance costs

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|------------|---------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| Interest expense on senior notes, including yield maintenance premium | \$ 10,053 | \$ (7,992) | \$ 20,312 | \$ (3,122) |
| Interest expense on other loans | 1,387 | 831 | 2,866 | 1,767 |
| Financing related costs | - | 32 | - | 34 |
| Other interest expense | 33 | 14 | 1,515 | 29 |
| Other Interest expenses-leases | 11 | 35 | 51 | 77 |
| Unwinding of discounts on provisions | 228 | 579 | 390 | 863 |
| Balance, end of period | \$ 11,712 | \$ (6,501) | \$ 25,134 | \$ (352) |

19. Loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately CAD \$25,538,000 (2020: CAD \$27,120,000) and the weighted average number of Class "A" common shares in issue during the years as presented in the following table.

| | Six months ended June 30, | |
|---|---------------------------|-------------|
| | 2021 | 2020 |
| Basic and diluted – Class "A" common shares | 243,478,681 | 129,982,773 |
| Loss per share | \$ 0.14 | \$ 0.21 |

20. Capital and financial risks management

20.1 Capital risk management



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

The Group's strategy is to access sufficient capital, through equity issuances 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 Group manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Group's risk profile. In order to manage risk, the Group may from time to time issue shares and adjust its capital spending to manage current working capital levels.

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

| | June 30, 2021 | | December 31, 2020 | |
|----------------------------|----------------------|---------|--------------------------|---------|
| Working capital deficiency | \$ | 535,469 | \$ | 509,044 |
| Shareholders' equity | | 148,756 | | 165,420 |
| | \$ | 684,225 | \$ | 674,464 |

There is no change in the Group's objectives and strategies of capital management for the six months ended June 30, 2021.

20.2 Categories of financial instruments

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

| | June 30, 2021 | | December 31, 2020 | |
|--|----------------------|------------|--------------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Financial assets at amortised cost (including cash and cash equivalents) | \$ 21,143 | \$ 21,143 | \$ 21,474 | \$ 21,474 |
| Financial liabilities | | | | |
| Financial liabilities at amortised cost | \$ 550,920 | \$ 550,920 | \$ 535,092 | \$ 535,092 |

20.3 Fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized costs in the consolidated financial statements approximate their fair values due to their short term maturity.

20.4 Currency risk

The Group 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 United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group 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 Group had no forward exchange rate contracts in place as at or during the six months ended June 30, 2021.

If exchange rate to convert from USD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2021 would have been impacted by \$Nil (2020: \$Nil) and the carrying value of the debt at June 30, 2021 would have been impacted by \$2.46 million (2020: \$2.9 million).

If exchange rate to convert from HKD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2021 would have been impacted by Nil (2020: \$Nil) and the carrying value of the debt at June 30, 2021 would have been impacted by \$0.33 million (2020: \$0.23 million).

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



| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|--------------------|---------------------------|------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Unrealized foreign exchange loss/(gain) on translation of: | | | | |
| U.S. denominated senior secured notes | \$ 8,309 | \$ (11,104) | \$ (6,498) | \$ 12,713 |
| H.K. denominated loan | (770) | (1,419) | (748) | 1,353 |
| Foreign currency denominated cash balances | 8 | 68 | (147) | 70 |
| Foreign currency denominated accounts payable balances | 364 | (11) | 967 | (9) |
| | 7,911 | (12,466) | (6,426) | 14,127 |
| Realized foreign exchange loss/(gain) | 2 | 8 | 2 | 24 |
| Total foreign exchange loss/(gain) | \$ 7,913 | \$ (12,458) | \$ (6,424) | \$ 14,151 |

20.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group'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.

The timing of cash outflows relating to financial liabilities as at June 30, 2021, are as follows:

| | Total | Less than 1 year | 1-2 years |
|-------------------------------|------------|------------------|-----------|
| Trade and accrued liabilities | \$ 242,188 | \$ 242,188 | \$ - |
| Debt ¹ | 269,129 | 257,536 | 11,593 |
| | \$ 511,317 | \$ 499,724 | \$ 11,593 |

1. Principal amount of Notes and loans based on the month end exchange rate of \$1 US = 1.2394 CAD and \$1HKD = \$0.1596 CAD. Debt is due on demand.

21. Related party transactions

In addition to the transactions and balances disclosed elsewhere in these Condensed Consolidated Interim financial statements, during the year, the Group entered into the following material related party transactions.

21.1 Trading transactions

For the six months ended June 30, 2021, a consulting Group, to which a director of Sunshine is related, charged the Group \$0.25 million (December 31, 2020 – \$0.5 million) for management and advisory services.

As at 30 June 2021, Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 150,232,591 common shares of the Company, which represents approximately 61.70% of the Company's outstanding common shares.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class "A" common shares were to be allotted and issued upon the full conversion of the CB. The CB interest rate was 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was completed on 15 June 2020. The entire proceeds were used for financing general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber. The Conversion and the Whitewash Waiver was then approved by the independent shareholders at the Special General Meeting on 5 March 2021. The Whitewash Waiver has been conditionally granted by HKSCF on 4 March 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

21.2 Compensation of key management personnel and directors



SUNSHINE OILSANDS LTD.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------|-----------------------------|-----------------|---------------------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| Directors' fees | \$ 94 | \$ 96 | \$ 197 | \$ 198 |
| Salaries and allowances | 492 | 793 | 983 | 1,578 |
| Share-based compensation | 1 | 127 | 2 | 254 |
| | <u>\$ 587</u> | <u>\$ 1,016</u> | <u>\$ 1,182</u> | <u>\$ 2,030</u> |

21.3 Related companies' loans

| | June 30, 2021 | | December 31, 2020 | |
|-------------|---------------|---------------|-------------------|---------------|
| Current | \$ | 38,227 | \$ | 32,745 |
| Non-current | | - | | - |
| | <u>\$</u> | <u>38,227</u> | <u>\$</u> | <u>32,745</u> |

As at June 30, 2021, the Group had loans from related companies which are unsecured, interest bearing at 10% per annum, and of which approximately CAD \$38,227,000 can be rollover for a period of 3 to 6 months.

22. Commitments and contingencies

22.1 Commitments

As at June 30, 2021, the Group's commitments are as follows:

| At June 30, 2021 | Total | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter |
|---|-----------------|--------------|--------------|------------|------------|------------|------------|
| Drilling, other equipment and contracts | 280 | 30 | 50 | 50 | 50 | 50 | 50 |
| Lease rentals (Note) | 3,256 | 1,173 | 1,256 | 316 | 315 | 196 | - |
| Office leases | 1,480 | 544 | 670 | 266- | - | - | - |
| | <u>\$ 5,016</u> | <u>1,747</u> | <u>1,976</u> | <u>365</u> | <u>365</u> | <u>246</u> | <u>50</u> |

Note:

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

22.2 Litigation

The Group has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Group (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 Group to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Group's

IPO) of the Group 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 Group's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. As at June 30, 2020, no amounts have been accrued in the Condensed Consolidated Interim Financial Statements as the ultimate resolution is undeterminable at this time. The Group will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2021 municipal property taxes of \$11.7 million. The Group was also charged with overdue penalties of \$6.7 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Group has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim.

The Group 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 Group'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 Group determines that the loss is probable and the amount can be reasonably estimated. The Group believes it has made adequate provision for such claims. While fully supportable in the Group's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Group receives liens or claims on accounts payable balances, and the Group continues to work toward resolution of any liens or claims. At June 30, 2021, the Group had incurred \$0.82 million in Builders' liens (not related to mineral leases) against them during the ordinary course of business.

23. Subsidiaries

On May 4, 2012, Sunshine Oilsands (Hong Kong) Limited was incorporated in Hong Kong and is a wholly-owned subsidiary of the Company. The address of its principal place of business is 20/F, Two Chinachem Central, No.26 Des Voeux Road Central, Hong Kong. As of June 30, 2020, the subsidiary had no business activity.

On July 14, 2015, Boxian Investments Limited was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of its principal place of business is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The purpose of the subsidiary is to pursue new investment opportunities. As of June 30, 2020, the subsidiary had no business activity.

On March 24, 2017, Sang Xiang Petroleum & Chemical (Shanghai) Limited was incorporated in China and is a wholly-owned subsidiary of the Company. The address of its principal place of business is Building 1, Level 6, Room 41, 39 Jia Tai Road, the China (Shanghai) Pilot Free Trade Zone. As of June 30, 2020, the subsidiary had no business activity.

On April 15, 2019, Sang Xiang Petroleum & Chemical (Hebei) Limited was incorporated in China and is a subsidiary in which the Company owns 51% interests. The address of its principal place of business is Techno Building, Level 4, Room 0430, Chengde Hi-Tech Industry Development Zone, Hebei Province. As of June 30, 2021, the subsidiary had no business activity.

24. Subsequent Events

On August 8, 2021, the Company and the Forbearing Holder confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The FRAA covers the period from September 1, 2021 to August 31, 2023 ("Period of Forbearance");
- Same as the Forbearance Reinstatement and Amending Agreement executed on April 24, 2020, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2023, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

The Board believes the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to a reasonable market level.

25. Supplemental cash flow disclosures

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------------|-----------------------------|--------|---------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| Cash provided by (used in): | | | | |
| Trade and other receivables | \$ 615 | \$ 561 | \$ 579 | \$ 2,230 |
| Prepaid expenses and deposits | 130 | 186 | (298) | 1,230 |
| Trade and other payables | 451 | | 2,120 | (1,839) |
| Debt settlement | | - | | 324 |
| Foreign Exchange changes | (364) | (676) | (1,045) | 952 |



SUNSHINE OILSANDS LTD.

| | | | | | | | | |
|---|----|------|----|-------|----|-------|----|---------|
| | \$ | 832 | \$ | 291 | \$ | 1,356 | \$ | 2,897 |
| Changes in non-cash working capital relating to: | | | | | | | | |
| <i>Operating activities</i> | | | | | | | | |
| Trade and other receivables | \$ | 615 | \$ | 561 | \$ | 579 | \$ | 2,230 |
| Prepaid expenses and deposits | | 130 | | 186 | | (298) | | 1,230 |
| Trade and other payables | | (32) | | 474 | | 915 | | (1,724) |
| | \$ | 713 | \$ | 1,221 | \$ | 1,196 | \$ | 1,736 |
| <i>Investing activities</i> | | | | | | | | |
| Property, plant and equipment | \$ | 119 | \$ | (254) | \$ | 238 | \$ | (115) |
| <i>Financing activities</i> | | | | | | | | |
| Foreign Exchange Changes-Loans | \$ | - | \$ | (676) | \$ | (78) | \$ | 952 |
| Debt settlement | | | | - | | | | 324 |
| | \$ | | \$ | (676) | \$ | (78) | \$ | 1,276 |
| | \$ | 832 | \$ | 291 | \$ | 1,356 | \$ | 2,897 |

26. Approval of Condensed Consolidated Interim Financial Statements

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors and authorized for issue on August 12, 2021(Calgary Time) /August 13, 2021 (Hong Kong Time).



SUNSHINE OILSANDS LTD.

Appendix to the consolidated financial statements (Unaudited)

Additional Stock Exchange Information

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

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

| | Notes | 2021 CAD'000 | 2020 CAD'000 |
|---|-------|-----------------------|-----------------------|
| Asset | | | |
| <i>Current assets</i> | | | |
| Trade and other receivables | | 1,770 | 427 |
| Prepaid expenses and deposits | | 1,273 | 926 |
| Cash and cash equivalents | | 236 | 442 |
| | | <u>3,279</u> | <u>1,795</u> |
| <i>Non-current assets</i> | | | |
| Exploration and evaluation assets | | 255,405 | 256,189 |
| Property, plant and equipment | | 475,357 | 481,708 |
| Right-of-use assets | | 1,054 | 1,331 |
| Other receivables | | 2,070 | 1,999 |
| Loan receivables | | 11,041 | 12,882 |
| Amounts due from subsidiaries | | 11,424 | 11,499 |
| | | <u>756,351</u> | <u>765,608</u> |
| Total Asset | | <u><u>759,630</u></u> | <u><u>767,403</u></u> |
| Liabilities and Shareholders' Equity | | | |
| <i>Current liabilities</i> | | | |
| Trade and accrued liabilities | | 240,988 | 223,037 |
| Lease liabilities | | 1,058 | 590 |
| Loans from related companies | | 29,581 | 24,325 |
| Other loans | | 2,535 | 1,158 |
| Senior notes | | 255,001 | 252,911 |
| Amount due to subsidiaries | | 2,529 | 3,456 |
| | | <u>531,692</u> | <u>505,477</u> |
| <i>Non-current liabilities</i> | | | |
| Convertible bonds | | | 9,306 |
| Other loans | | 11,593 | 13,204 |
| Lease liabilities | | 110 | 766 |
| Provisions | | 53,749 | 61,148 |
| | | <u>65,452</u> | <u>84,424</u> |
| Total liabilities | | <u>597,144</u> | <u>589,901</u> |
| Shareholders' Equity | | | |
| Share capital | | 1,315,265 | 1,296,814 |
| Convertible bonds equity reserve | | | 4,170 |



SUNSHINE OILSANDS LTD.

| | | |
|---|--------------------|--------------------|
| Reserve for share-based compensation | 76,413 | 76,411 |
| Accumulated Deficit | <u>(1,229,192)</u> | <u>(1,199,893)</u> |
| Total shareholders' equity | <u>162,486</u> | <u>177,502</u> |
| Total Liabilities and Shareholders' Equity | <u>759,630</u> | <u>767,403</u> |



Appendix to the Condensed Consolidated Interim Financial Statements (Unaudited)

A2. Directors' emoluments and other staff costs

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-----------------|---------------------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| <i>Directors' emoluments</i> | | | | |
| Directors' fees | \$ 94 | \$ 96 | \$ 197 | \$ 198 |
| Salaries and allowances | 492 | 565 | 983 | 1,122 |
| Share-based compensation | 1 | 127 | 2 | 254 |
| | <u>587</u> | <u>788</u> | <u>1,182</u> | <u>1,574</u> |
| <i>Other staff costs</i> | | | | |
| Salaries and other benefits | 486 | 563 | 932 | 1,438 |
| Share-based compensation | | - | | - |
| | <u>486</u> | <u>563</u> | <u>932</u> | <u>1,438</u> |
| Total staff costs, including directors' emoluments | <u>1,073</u> | <u>1,351</u> | <u>2,114</u> | <u>3,012</u> |
| Less: staff costs capitalized to qualifying assets | | - | | - |
| | <u>\$ 1,073</u> | <u>\$ 1,351</u> | <u>\$ 2,114</u> | <u>\$ 3,012</u> |



SUNSHINE OILSANDS LTD.