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**Sunshine Oilsands Ltd.**  
**陽光油砂有限公司\***

*(a corporation incorporated under the Business Corporations Act  
of the Province of Alberta, Canada with limited liability)*  
**(HKEX: 2012; TSX: SUO)**

**OVERSEAS REGULATORY ANNOUNCEMENT**

Sunshine Oilsands Ltd. has filed its Annual Information Form for the year ended December 31, 2014 along with the CEO Certification of Annual Filings and CFO Certification of Annual Filings on SEDAR ([www.sedar.com](http://www.sedar.com)).

By Order of the Board of Sunshine Oilsands Ltd.

**Tingan Liu**  
*Non-Executive Chairman*

**Michael J. Hibberd**  
*Executive Vice-Chairman*

Calgary, March 26, 2015  
Hong Kong, March 27, 2015

*As at the date of this announcement, the Board consists of Mr. Michael John Hibberd, Dr. Qi Jiang and Mr. Jin Hu as executive directors; Mr. Hong Luo, Mr. Hok Ming Tseung, Mr. Tingan Liu and Mr. Haotian Li as non-executive directors; and Mr. Raymond Shengti Fong, Mr. Robert John Herdman, Mr. Gerald Franklin Stevenson and Mr. Zhefei Song as independent non-executive directors.*

*\* For identification purposes only*



# **SUNSHINE OILSANDS LTD.**

Annual Information Form

For the Year Ended December 31, 2014

**Dated March 26, 2015**

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## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Information Form are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and readers are hereby cautioned about important factors that could cause Sunshine's actual results to differ materially from those projected in forward-looking statements. 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", "may", "seek", "should", "intend", "plan", "projection", "could", "objective", "target", and "schedule") 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 Annual Information Form), uncertainties and other factors some of which are beyond our 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.

In particular, this Annual Information Form contains forward-looking statements pertaining to, but not limited to, the following:

- the amounts of time and capital that will be required to complete construction and development of phase one at the West Ells asset;
- the amount of time that will be required to achieve first steam and first oil at the West Ells asset;
- the Corporation's ability to raise capital;
- the timing of receipt of regulatory approvals and the Corporation's plans to submit additional regulatory approval applications;
- the business strategy and objectives and business strengths of the Corporation;
- the resource potential of the Corporation's assets;
- the Corporation's growth strategy and opportunities;
- the potential for joint ventures, sales, or other arrangements involving the Corporation's assets;
- the Corporation's capital expenditure programs;
- the estimated quantity of the Corporation's proved, probable and possible reserves and contingent resources;
- projections of commodity prices, costs and netbacks;
- the timing of certain of the Corporation's operations and projects, including the commencement of its planned bitumen development projects and the levels and timing of anticipated production;
- the commercial development potential of the Corporation's assets;
- public perception of Canada's oil sands;
- supply and demand fundamentals for crude oil, bitumen blend, natural gas, and condensate and other diluents and volatility in prices;
- the Corporation's ability to attract, retain and train key personnel;
- the Corporation's access to third-party infrastructure;
- industry conditions including with respect to project development;
- the construction of the Corporation's facilities and the capacity thereof;
- the Corporation's general and administrative expenses;
- the Corporation's drilling plans;
- the Corporation's plans for, and results of, exploration and development activities;
- realization of the anticipated benefits of acquisitions and dispositions; and
- the Corporation's treatment under governmental regulatory regimes and tax laws.

With respect to forward looking statements and forward looking information contained in this Annual Information Form, assumptions have been made regarding, among other things:

- the Corporation's ability to operate as a going concern;
- the Corporation's ability to raise capital;
- future prices of crude oil, bitumen blend, natural gas, and condensate and other diluent;
- the Corporation's ability to obtain qualified staff and equipment in a timely and cost efficient manner;
- the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which the Corporation conducts and will conduct its business;
- the Corporation's ability to transport and market production of bitumen blend successfully to customers;
- the Corporation's production levels;
- the applicability of technologies for the recovery and production of the Corporation's reserves and resources;
- the recoverability and methodology of evaluation of the Corporation's reserves and resources;
- operating costs;
- performance of third party contractors;
- capital expenditures to be made by the Corporation;
- sources of funding for the Corporation's capital programs and the Corporation's ability to obtain financing on acceptable terms;
- the Corporation's debt levels;
- success rates of well drilling;
- well drainage areas;
- well production rates;
- geological and engineering estimates in respect of the Corporation's reserves and resources;
- the geography of the areas in which the Corporation is conducting exploration and development activities; and
- the impact of increasing competition on the Corporation.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about our businesses and industry. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. In addition, this Annual Information Form may contain forward-looking statements attributed to third party industry sources. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the information and factors discussed throughout this Annual Information Form. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- the Corporation's ability to complete projects currently in development within expected time frames, within budget, or at all;
- the Corporation's level of profitability;
- the performance and characteristics of our oil sands properties and the size of our oil sands resources and reserves;
- the bitumen production and production capacity of our assets;
- our growth strategy and opportunities;
- our substantial capital expenditure programs and future capital requirements;
- our estimates of future interest and foreign exchange rates;
- the timing and size of certain of our operations and phases, including our planned bitumen development;
- our projects, and the levels of anticipated production;

- supply and demand fundamentals for crude oil, bitumen blend, condensate and other diluents;
- fluctuations in market prices and costs;
- our future general and administrative expenses;
- the majority of our total reserves and contingent resources are non-producing and undeveloped and are subject to changes in guidelines used to evaluate economic volumes notwithstanding assessments for uncertainty and risk;
- sale, farming in, farming out or development of certain oil sands properties using third party resources;
- operational hazards;
- competition for, among other things, capital, the acquisition of reserves and resources, pipeline capacity and skilled personnel;
- risks inherent in our operations, including those related to exploration, development and production of oil sands reserves and resources, including the production of oil sands reserves and resources using SAGD, CSS or other *in-situ* technologies;
- our ability to meet specific requirements in respect of our Oil Sands Leases;
- First Nations' claims and our relationships with local and regional stakeholders;
- risks relating to infringement of oil and gas development rights and litigation in the ordinary course of business;
- unforeseen title defects;
- risks arising from future disposal activities;
- failure to accurately estimate abandonment and reclamation costs;
- the need to obtain regulatory approvals and maintain compliance with regulatory requirements and the extent of, and cost of compliance with, laws and regulations and the effect of changes in such laws and regulations from time to time;
- the cost and availability of capital, including access to capital markets at acceptable rates;
- the substantial capital requirements of the Corporation's projects;
- general economic, market and business conditions in Canada, the United States and globally;
- failure to meet development schedules and potential cost overruns;
- risks related to the Corporation's filings with taxation authorities, including the risk of reassessments;
- risks arising from future acquisition and joint venture activities;
- global financial uncertainty;
- the Corporation's status and stage of development;
- expiration of leases and permits;
- risks related to gathering and processing facilities and pipeline systems;
- availability of drilling and related equipment and limitations on access to the Corporation's assets;
- increases in operating costs;
- the effect of diluent and natural gas supply constraints and increases in the costs thereof;
- gas over bitumen issues affecting operational results;
- environmental risks and hazards and the cost of compliance with environmental regulations, including greenhouse gas regulations and potential Canadian and U.S. climate change legislation;
- changes to royalty regimes;
- political risks, both domestic and international;
- the potential for management estimates and assumptions to be inaccurate;
- long term reliance on third parties, including reliance on third party infrastructure for project facilities, pipeline and other modes of transportation;

- failure by counterparties to make payments or perform their operational or other obligations to the Corporation in compliance with the terms of contractual arrangements;
- seasonality and adverse weather conditions;
- hedging risks;
- risks associated with establishing and maintaining systems of internal controls;
- insurance risks;
- claims made in respect of the Corporation's operations, properties or assets;
- the failure of the Corporation to meet specific requirements of licenses or leases; and
- all other risks and uncertainties described in the section in this Annual Information Form titled "*Risk Factors*".

**Readers are cautioned that the risks and uncertainties described in this section and in the section titled "*Risk Factors*" are not exhaustive.**

Since actual results or outcomes could differ materially from those expressed in forward-looking statements, we strongly caution readers against placing undue reliance on forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain 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, except as required by law, we undertake 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 Annual Information Form are expressly qualified by reference to these cautionary statements.**

#### **NOTICE REGARDING PRESENTATION OF RESERVES AND RESOURCES DATA**

The determination of reserves and resources involves the preparation of estimates that have an inherent degree of associated uncertainty. The estimation and classification of reserves and resources requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserve classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability, statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserve and resource definitions.

Disclosure in this Annual Information Form of production and reserves and resources quantities is presented in accordance with NI 51-101 and the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**"). Certain terms used in this Annual Information Form in describing reserves and other oil and natural gas information are defined below. Certain other terms and abbreviations used in this Annual Information Form, but not defined or described, are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 or the COGE Handbook.

#### **Interests in Reserves, Production, Wells and Properties**

"Gross" means: (a) in relation to an issuer's interest in production or reserves, its "company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the issuer; (b) in relation to wells, the total number of wells in which an issuer has an interest; and (c) in relation to properties, the total area of properties in which an issuer has an interest.

"Net" means: (a) in relation to an issuer's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves; (b) in relation to an issuer's interest in wells, the number of wells obtained by aggregating the issuer's working interest in each of its gross wells; and (c) in relation to an issuer's interest in a property, the total area in which the issuer has an interest multiplied by the working interest owned by the issuer.



“Working interest” means the percentage of undivided interest held by an issuer in the oil and/or natural gas or mineral lease granted by the mineral owner, Crown or freehold, which interest gives the issuer the right to “work” the property (lease) to explore for, develop, produce and market the leased substances.

### **Note Regarding Disclosure of Reserves and Resources**

Unless otherwise stated, all disclosure of our reserves in this Annual Information Form is made in respect of our gross reserves and all disclosure of our resources is made in respect of our company interest resources.

### **Reserve Categories**

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on:

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable.

Reserves are classified according to the degree of certainty associated with the estimates.

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of proved plus probable plus possible reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the reserve categories (proved, probable and possible) may be divided into developed and undeveloped categories:

- Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing reserves.
- Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in and the date of resumption of production is unknown.
- Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable or possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This

allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

### **Levels of Certainty for Reported Reserves**

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations estimates are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and
- at least a 10% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods. Additional clarification of certainty levels associated with reserve estimates and the effect of aggregation is provided in the COGE Handbook.

### **Resources Categories**

While we have established proved, probable and possible reserves, certain of our properties also have resources, which are quantities of petroleum that cannot be classified as reserves. The portion classified as resources has not been classified as reserves at this time, pending further delineation drilling, development planning, project design and receipt of regulatory approvals. The resource values should be considered indicative in nature only, pending further planning and design work to confirm timing and capital estimates.

Criteria other than economics may require classification as resources rather than reserves. Contingencies affecting the classification as reserves versus resources relate to the following issues as detailed in COGE Handbook: ownership considerations, drilling requirements, testing requirements, regulatory considerations, infrastructure and market considerations, timing of production and development, and economic requirements.

In this Annual Information Form, we refer to contingent resources, which are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Not all technically feasible development plans will be commercial. The commercial viability of a development project is dependent on the forecast of fiscal conditions over the life of the project including, without limitation, capital costs, operating costs, product pricing, production capability and corporate capability to finance development. For contingent resources, the risk component relating to the likelihood that an accumulation will be commercially developed is referred to as the "chance of development." For contingent resources the chance of commerciality is equal to the chance of development. Contingent resources were assigned in regions with lower core-hole drilling density than the reserve regions and are outside current areas of application for development. These resource estimates are not classified as reserves at this time, pending further reservoir delineation, project application, facility and reservoir design work. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

When evaluating resources the following mutually exclusive categories are recommended in the COGE Handbook:

- low estimate: This is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least 90 percent probability that the quantities actually recovered will equal or exceed the low estimate.
- best estimate: This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability that the quantity actually recovered will equal or exceed the best estimate.
- high estimate: This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability that the quantities actually recovered will equal or exceed the high estimate.

Future net revenues associated with reserves and resources disclosed herein do not represent fair market value.

## GLOSSARY OF TECHNICAL AND GENERAL TERMS

This glossary contains definitions of certain technical terms used in this Annual Information Form in connection with the Corporation's business. These terms and their given meanings may not correspond to industry standard definitions or usage of these terms.

### Abbreviations

In this Annual Information Form, the abbreviations set forth below have the following meanings:

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	MMcf	million cubic feet
bbl/d	barrels per day	Mcf/d	thousand cubic feet per day
Mbbl	thousand barrels	MMcf/d	million cubic feet per day
Mbbl/d	thousand barrels per day	MMBTU	million British Thermal Units
MMbbl	million barrels	Bcf	billion cubic feet
MMbbl/d	million barrels per day	GJ	Gigajoule
NGLs	natural gas liquids		
Other			
boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 (unless otherwise stated) Mcf of natural gas (this conversion factor is an industry accepted norm and is an approximation of energy content but not current prices)		
boe/d	barrel of oil equivalent per day		
m <sup>3</sup>	cubic metres		
m <sup>3</sup> /d	cubic metres per day		
Mboe	thousand barrels of oil equivalent		
MMboe	million barrels of oil equivalent		
WTI	West Texas Intermediate, a common reference grade of crude oil in the U.S.		

**Note:** the measure "boe" may be misleading as an indication of value, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

### ***Technical Terms***

“**apex**” means the thickest point of a formation;

“**API**” means the American Petroleum Institute, a trade association for the oil and natural gas industry in the United States, of which the Corporation is not a member;

“**API gravity**” or “**API**” means American Petroleum Institute gravity, which is a measure of how heavy or light a petroleum liquid is compared to water. If a petroleum liquid’s API gravity is greater than 10 degrees, it is lighter and floats on water; if less than 10 degrees, it is heavier than water. API gravity is thus a measure of the relative density of a petroleum liquid and the density of water, but it is used to compare the relative densities of petroleum liquids. A higher API gravity indicates a lighter and less dense liquid;

“**barrel**” means a unit of volume equal to 42 US gallons;

“**best estimate**” means at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate;

“**bitumen**” means a naturally occurring heavy viscous form of crude oil measured at 10 API° or less and with viscosity greater than 10,000 milliPascal seconds (centipoise) measured at original temperature in the reservoir and atmospheric pressure, on a gas free basis (crude bitumen may contain sulphur and other non hydrocarbon compounds);

“**carbonate**” means a class of sedimentary rock whose chief mineral constituents (95% or more) are calcite, aragonite and dolomite. Limestone, dolostone (or dolomite) and chalk are carbonate rocks. Carbonate rocks are common hydrocarbon reservoir rocks;

“**CHOPS**” means Cold Heavy Oil Production with Sand, a technique used for the extraction of conventional heavy oil in which sand is pumped out of the well bore with oil, leading to improved recovery;

“**clastic**” means sediment consisting of weathered fragments derived from pre-existing rocks and transported elsewhere and redeposited before forming another rock. Examples of common clastic sedimentary rocks include siliciclastic rocks such as conglomerate, sandstone, siltstone and shale;

“**cogeneration of power**” means generating steam and electric power at the same time from the same energy source;

“**completion**” means the process of making a well ready for production;

“**condensate**” means a low density mixture of the heavier hydrocarbons (C5+) in natural gas that condense out to a liquid at normal pressure and temperature and that is commonly used as a diluent for bitumen;

“**contingent resources**” means quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. Contingent resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status;

“**conventional heavy oil**” means a heavy crude oil produced through conventional means without thermal stimulation that is measured at 20 API° or less. Our conventional heavy oil development at Muskwa utilizes CHOPS for primary production without any thermal stimulation, but due to the nature of the oil produced at Muskwa it falls under the ‘Bitumen’ classification (quantified as crude oil with API gravities lower than 10 degrees and viscosities greater than 10,000 milliPascal seconds);

“**crude oil**” means a combustible hydrocarbon usually processable into a variety of petrochemicals;

“**CSS**” means cyclic steam stimulation, an *in-situ* process used to recover bitumen from oil sands. In this method, the well is put through cycles of steam injection, soak and oil production. First, steam is injected into a well for a period of weeks to months; then, the well is allowed to sit for days to weeks to allow heat to soak into the formation and, later, the hot oil is pumped out of the well for a period of weeks or months. Once the production rate falls off, the well is put through another cycle of injection, soak and production;

“**delineation**” means determination of the physical boundary of an accumulation of petroleum substances underground;

“**delineation well**” means a well that is so closely located to another well penetrating an accumulation of petroleum that there is a reasonable expectation that another portion of the accumulation will be penetrated by the first mentioned well. The drilling of the first-mentioned well is necessary in order to determine the physical extent, reserves and commercial value of the accumulation;

“**dilbit**” means a blend of diluent and bitumen;

“**diluent**” means lighter viscosity petroleum products that are used to dilute bitumen for transportation in pipelines;

“**dolomite**” is a carbonate mineral. Geological formations that are dolomitized generally tend to be more productive because it involves replacing the calcium in calcium carbonate with magnesium that is slightly smaller in size. The net result is a smaller molecule in the same volume, thus increasing porosity of the rock;

“**Edmonton Par**” means Edmonton Par, a light sweet crude oil;

“**first steam**” means when steam is first injected into a well or well pair;

“**heavy crude oil**” means crude oil normally measured at 20 API° or less;

“**high estimate**” means at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate;

“*in-situ*” means “**in place**” and, when referring to oil sands, means a process for recovering bitumen from oil sands by means other than surface mining, such as SAGD or CSS;

“**low estimate**” means at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate;

“**payout**” means the point at which all costs of leasing, exploring, drilling, development and operating have been recovered from production;

“**permeability**” means a measure of the ability of a rock to conduct a fluid through its interconnected pores (pore throat) when that fluid is at 100% saturation. A rock may be highly porous and yet impermeable if it has no pore throat. Geological formations that are highly permeable generally tend to be more productive because the steam used in SAGD can penetrate through the pore throats of the bitumen sands, growing the steam chamber, while allowing the less viscous bitumen to travel back through the pore throats for production;

“**petroleum**” means a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid or solid phase, as defined by PRMS;

“**porosity**” means the ratio of void space to the bulk volume of rock containing that void space. Geological formations that are highly porous generally tend to be more productive because the higher the porosity, the greater capacity that volume has to hold fluid (i.e., bitumen);

“**possible reserves**” means those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will be equal or exceed the sum of the estimated proved plus probable plus possible reserves;

“**PRMS**” means the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007, as amended from time to time;

“**probable reserves**” means those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves;

“**prospective resources**” means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development may be subclassified based on project maturity;

“**proved reserves**” means those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves;

“**PV10%**” means the present value of estimated future net revenues to be generated from the production of proved reserves and discounted using an annual discount rate of 10%;

“**railbit**” means a blend of diluent and bitumen designed for transport by railcar instead of pipeline;

“**reserves**” means those quantities of petroleum anticipated to be commercially recoverable by the application of development projects to known accumulations from a given date forward under defined conditions. Reserves are classified according to the degree of certainty associated with the estimates;

“**SAGD**” means steam assisted gravity drainage, an *in-situ* recovery process used to produce heavy crude oil and bitumen. Two parallel horizontal wells, which are generally 5 metres apart, are drilled for the SAGD process. Steam is injected to the upper steam injector and a steam chamber is developed above the injector. With the growth of the steam chamber, mobilized bitumen drains to the producer below the injector and is lifted to the surface through an artificial lift system;

“**saturation**” means the fraction or percentage of the pore volume occupied by a specific fluid (e.g. oil, gas, water, etc.);

“**shoreline complex**” means a stratified sedimentary package composed largely of clastic material located parallel to and adjoining the edge of a standing water body that may contain depositional environments ranging from wave base through to beach and back barrier marsh;

“**SOR**” means steam to oil ratio;

“**TAGD**” means thermal assisted gravity drainage, an *in-situ* recovery process using down-hole heaters to heat oil reservoirs by thermal conduction;

“**working interest**” means a proportional interest in a lease granting its owner the right to explore, develop and produce resources from a property and to receive revenues in proportion to the working interest over the property and incur costs in proportion to the working interest over the property;

“**WCS**” or “**Western Canadian Select**” means a conventional heavy sour crude oil blend that contains crude oil that has been blended with lighter hydrocarbon diluents, such as condensate, to meet the required density and sulphur content; and

“**WTI**” means West Texas Intermediate, a light sweet crude oil.

### ***General Terms***

Wherever used in this Annual Information Form, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

“**ABCA**” means the *Business Corporations Act*, RSA 2000, c B-9, together with any amendments thereto and all regulations promulgated thereunder;

“**AER**”, means the Alberta Energy Regulator (formerly the Energy Resources Conservation Board);

“**AESRD**” means Alberta Environment and Sustainable Resource Development, a ministry of the Government of Alberta;

“**AIF**” means this Annual Information Form;

“**ALSA**” means *Alberta Land Stewardship Act* SA 2009, c A-26.8, together with any amendments thereto and all regulations promulgated thereunder;

“**Annual and Special Meeting**” means the annual and special meeting of the shareholders of the Corporation held on January 26, 2012;

“**ASC**” means the Alberta Securities Commission, the regulatory agency responsible for administering the securities laws of Alberta;

“**AUC**” means the Alberta Utilities Commission, the regulatory agency responsible for regulating the utilities sector, natural gas and electricity markets in Alberta;

“**Bank of China**” means Bank of China Limited;

“**Board**” or “**Board of Directors**” means the board of directors of the Corporation, as constituted from time to time;

“**BOCGI**” means Bank of China Group Investment Limited, a wholly owned subsidiary of Bank of China, incorporated in Hong Kong and an indirect shareholder of the Corporation;

“**Class “B” Shares**” means the Class “B” Common Voting Shares in the capital of the Corporation, and prior to the amendment of the Corporation’s Articles on February 28, 2012, the Class “B” Common Shares;

“**Class “G” Shares**” means the Class “G” Preferred Non-Voting Shares in the capital of the Corporation, and prior to the amendment of the Corporation’s Articles on February 28, 2012, the Class “G” Preferred Shares;

“**Class “H” Shares**” means the Class “H” Preferred Non-Voting Shares in the capital of the Corporation, and prior to the amendment of the Corporation’s Articles on February 28, 2012, the Class “H” Preferred Shares;

“**Climate Change and Emissions Management Act**” means *Climate Change and Emissions Management Act* (Alberta), SA 2003, c C-16.7, together with any amendments thereto and all regulations promulgated thereunder;

“**Climate Change and Emissions Management Fund**” or “**Fund**” means a provincial fund established pursuant to the *Climate Change and Emissions Management Act*;

“**Commissioner**” means the Commissioner of Competition, pursuant to the *Competition Act*, RSC 1985, c C-34;

“**Common Shares**” means the Common Shares in the capital of the Corporation, being the Shares, the Class “B” Shares, the Class “C” Non-Voting Common Shares, the Class “D” Non-Voting Common Shares, the Class “E” Non-Voting Common Shares, and the Class “F” Non-Voting Common Shares;

“**Companies Act**” means *Companies Act* (Alberta), RSA 2000, c C-21, together with any amendments thereto and all regulations promulgated thereunder;

“**Companies Ordinance**” means the *Companies Ordinance* (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;

“**Competition Act**” means the *Competition Act*, RSC 1985, c C-34, together with any amendments thereto and all regulations promulgated thereunder;

“**Corporation**”, “**Sunshine**”, “**we**”, “**our**”, or “**us**” means Sunshine Oilsands Ltd., a corporation incorporated under the ABCA in 2007;

“**COSL**” means China Oilfield Services Ltd., a company incorporated under the laws of China;

“**Crown**” means Her Majesty in Right of Alberta;

“**Crown Land Sales**” means the competitive process whereby the Government of Alberta awards leases of public land in Alberta;

“**D&M**” means DeGolyer and MacNaughton Canada Limited, formed under the laws of Alberta, a wholly owned subsidiary of DeGolyer and MacNaughton Corporation and one of the independent qualified reserves evaluators (as such term is defined under NI 51-101) of the Corporation;

“**D&M Report**” means the resource report prepared by D&M effective as of December 31, 2014;

“**Director(s)**” means the director(s) of the Corporation;

“**First Nations**” means the indigenous peoples of Canada;

“**GHG**” means Greenhouse gas;

“**GLJ**” means GLJ Petroleum Consultants Ltd., a limited liability company incorporated under the laws of Alberta and one of the independent qualified reserves evaluators (as such term is defined under NI 51-101) of the Corporation;

“**GLJ Report**” means the reserve and resource report prepared by GLJ effective as of December 31, 2014;

“**Global Offering**” means the initial public offering on the SEHK of 923,299,500 Shares in the capital of the Corporation at HK\$4.86 per Share for gross proceeds of approximately \$570 million (HK\$4,487 million);

“**ICA**” means the *Investment Canada Act* (Canada), RSC 1985, c 28 (1st Supp), together with any amendments thereto and all regulations promulgated thereunder;

“**IFRS**” means International Financial Reporting Standards, as issued by the International Accounting Standards Board;

“**Indenture**” means the indenture dated August 8, 2014 among Sunshine, The Bank of New York Mellon, as trustee, and BNY Trust Company of Canada, as collateral agent, providing for the creation and issuance of the Notes;

“**Independent Evaluators**” means both D&M and GLJ;

“**Independent Reports**” means both the D&M Report and the GLJ Report and the “**Independent Report**” means either one of them;

“**IPO**” means the initial public offering of Shares of the Corporation in March 2012;



“**Joint Operating Agreement**” means the joint operating agreement entered into between the Corporation and Renergy on October 20, 2013;

“**LARP**” means the Lower Athabasca Regional Plan;

“**Listing Committee**” means the Listing Committee of the SEHK;

“**Mines and Minerals Act**” means the *Mines and Minerals Act* (Alberta), RSA 2000, c M-17, together with any amendments thereto and all regulations promulgated thereunder;

“**Minister of Energy**” means the Minister of Energy for the Government of Alberta;

“**NI 51-101**” means National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*, as amended from time to time;

“**Notes**” means the 10.0% senior secured notes issued by Sunshine pursuant to the Indenture;

“**Oil Sands**” or “**oil sands**” means sands and other clastic rock materials which contain bitumen and include all other mineral substances in association therewith;

“**Oil Sands Lease**” means an oil sands lease pursuant to which the Crown grants the holder the right to develop and use oil sands resources existing under the *Oil Sands Tenure Regulation* on a primary or a continued basis;

“**Oil Sands Tenure Regulation**” means *Oil Sands Tenure Regulation* (Alberta), 2010, Alta Reg 196/2010, as amended, supplemented or otherwise modified from time to time;

“**Orient**” means Orient International Resources Group Limited, a company incorporated under the laws of the British Virgin Islands on April 7, 2010;

“**Orient Credit Facility**” means the two-year credit facility entered into between Orient and the Corporation on October 18, 2011;

“**PADD**” means Petroleum Administration for Defence District;

“**Post-IPO Share Option Scheme**” means the stock option plan approved and adopted by the Corporation on January 26, 2012 for the grant of stock options to eligible participants following the completion of the Global Offering, as amended on May 6, 2013;

“**Preferred Shares**” means the preferred shares in the capital of the Corporation, being the Class “G” Shares, and the Class “H” Shares;

“**Pre-IPO Share Option Schemes**” means the stock option plan approved and adopted by the Corporation on May 9, 2007 and amended on April 30, 2008 and the stock option plan approved and adopted by the Corporation on May 7, 2009 and amended on June 13, 2010;

“**Renergy**” means Renergy Petroleum (Canada) Co., Ltd., an affiliate of Changjiang Investment Group Co., Ltd.;

“**SEDAR**” means the system for electronic document analysis and retrieval maintained by CDS Inc. under the website address <http://www.sedar.com/>;

“**SEHK**” means the Stock Exchange of Hong Kong Limited;

“**SGER**” means the *Specified Gas Emitters Regulation* (Alberta), Alta Reg 139/2007, enacted under the *Climate Change and Emissions Management Act* (Alberta), both as amended, supplemented or otherwise modified from time to time;

“**Shares**” means the Class “A” Common Voting Shares in the capital of the Corporation as listed on the SEHK, and prior to the amendment of the Corporation’s Articles on February 28, 2012, the Class “A” Common Shares;

“**Shareholders**” means the holder of the Shares and the holders of the Preferred Shares;

“**Share Option Schemes**” means the Pre-IPO Share Option Schemes and the Post-IPO Share Option Scheme;

“**Share Split**” means the 20 for 1 share split effected by the Corporation on February 10, 2012 in respect all of the issued and outstanding shares of the Corporation;

“**SIPC**” means Sinopec International Petroleum Exploration & Production Corporation, a company incorporated and existing under the laws of the People’s Republic of China, and a wholly owned subsidiary of Sinopec;

“**Sinopec**” means China Petroleum & Chemical Corporation, a joint stock limited company incorporated and existing under the laws of the People’s Republic of China and controlled by Sinopec Group;

“**Sinopec Group**” means China Petrochemical Corporation, a state-owned petroleum and petrochemical enterprise that was incorporated in July 1988;

“**Subscription Agreements**” means the three subscription agreements entered into between Sunshine and each of China Life Insurance (Overseas) Company Limited, Charter Globe Limited and Cross-Strait Common Development Fund Co. Limited in January and February 2011, under which China Life Insurance (Overseas) Company Limited subscribed for Class “B” Shares and Charter Globe Limited and Cross Strait Common Development Fund Co., Limited subscribed for Shares;

“**Surface Rights Act**” means *Surface Rights Act* (Alberta), RSA 2000, c S-24, together with any amendments thereto and all regulations promulgated thereunder;

“**Surface Rights Board**” means the Surface Rights Board established and continued under the *Surface Rights Act*;

“**Tax Act**” means *Income Tax Act* (Canada), RSC 1985, c 1 (5th Supp), together with any amendments thereto and all regulations promulgated thereunder;

“**TSX**” means the Toronto Stock Exchange; and

“**Water Act**” means the *Water Act* (Alberta), RSA 2000, c W-3, together with any amendments thereto and all regulations promulgated thereunder.

### ***Special Note Regarding Share Split***

All share information in this AIF is provided after giving effect to the Share Split (as defined below) that was approved by the Shareholders of the Corporation at the Annual and Special Meeting of the Shareholders on January 26, 2012. The Share Split became effective upon the filing of the Articles of Amendment on February 10, 2012.

### ***Currency of Information***

The information set out in this Annual Information Form is stated as at December 31, 2014, unless otherwise indicated. Capitalized terms used but not defined in the text are defined in the “*Glossary of Technical Terms*” and the “*Glossary of Terms*”.

### ***Dollar Amounts***

All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated. References to “US\$” are to United States dollars and references to “HK\$” are to Hong Kong dollars.

## CORPORATE STRUCTURE

Sunshine was incorporated pursuant to the provisions of the ABCA on February 22, 2007. The registered office of Sunshine is located at Suite 4000, 421 – 7<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 4K9, Canada, and its corporate head office and principal place of business is located at Suite 1020, 903 – 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 0P7, Canada.

On May 4, 2007, Sunshine amended its articles of association (the “**Articles**”) to add restrictions on the transfer of its shares, removed restrictions on the number of shareholders allowable by the Corporation, removed the prohibition on the Corporation from making an invitation to the public to subscribe for its securities and included a provision with respect to appointment of additional directors between annual general meetings.

On February 10, 2012, the Corporation amended its Articles to give effect to a 20 for 1 share split of all of the issued and outstanding shares of the Corporation (the “**Share Split**”).

On February 28, 2012, the Corporation amended its Articles to increase the maximum number of directors of the Corporation from ten to fifteen, amended the retraction rights available to the holders of the Class “G” Shares and the Class “H” Shares, removed the voting rights available to the holders of the Class “G” Shares, removed the provision with respect to liens the Corporation had against the issued and outstanding shares of its registered Shareholders to the extent of their indebtedness to the Corporation, included a provision in the Articles that any future amendments or repeals of the Corporation’s by-law would only be effective if passed by a special resolution of Shareholders, re-designated each class of shares of the Corporation such that each class of shares are expressly indicated as being either “voting” or “non-voting” shares of the Corporation and removed its private corporation restrictions with respect to restrictions on the transfer of shares of the Corporation.

On May 29, 2012, Sunshine Shareholders approved amendments to its bylaws in order to be consistent with the rules governing the listing of securities on the SEHK. The bylaws now expressly provide that all votes at shareholder meetings will be made by way of ballot, except where the Chair decides to allow a vote on purely procedural or administrative matters to be by show of hands. Sunshine’s Bylaws were also amended to provide that any person entitled to attend and vote at a meeting of shareholders may appoint another person as his or her proxy, a person entitled to attend and vote at a meeting of shareholders who holds two or more shares may appoint more than one proxy and a clearing house (or its nominee(s)) entitled to attend and vote at a meeting of shareholders may authorize such person as it thinks fit to act as its representative at any meeting of Sunshine’s shareholders (provided that if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each representative is authorized). Finally, Sunshine’s Bylaws were amended to provide that all transfers of shares shall be effected by transfer in writing in the usual form, on the back of Sunshine’s share certificates or such other form as the Board may accept provided that it shall be in such a form prescribed by the SEHK and under hand only except where the transferor or transferee is a Clearing House (or its nominee(s)) or where otherwise approved by the Board.

On May 4, 2012, Sunshine Oilsands (Hong Kong) Limited (“**Sunshine Hong Kong**”) was incorporated in Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and is a wholly-owned subsidiary of the Corporation. The address of the principal place of business for Sunshine Hong Kong is Unit 8504A, 85/F, International Commerce Centre 1 Austin Road West, Kowloon.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

The following is a summary of significant events in the development of the Corporation’s business over the past three years:

#### *2012*

On January 4, 2012, the Corporation completed the repurchase and cancellation of all purchase and fee warrants for \$68.9 million.

On January 26, 2012, shareholders of the Corporation authorized the Corporation to complete up to a 25:1 share split. On February 10, 2012, the Board of Directors of the Corporation concluded that a 20:1 share split was appropriate, increasing the number of Common Shares, Preferred Shares and stock options to 20 times their previous outstanding amounts. All share and stock option information is therefore now presented on a post-split basis. In addition, the Articles of Incorporation were amended to remove the voting rights from the Class “G” preferred shares.

Sunshine received regulatory approval on January 26, 2012 for the 10,000 bbl/d West Ells SAGD project.

In February 2012, the Corporation entered into a non-binding memorandum of understanding with SIPC, with a view to forming a strategic alliance and to carry out strategic cooperation. SIPC is a wholly-owned subsidiary and integrated strategic business unit of Sinopec that is engaged in overseas oil and gas exploration and production investments and business operations, as well as carrying out Sinopec’s overseas upstream investments and operations. On November 20, 2013, Sunshine signed an extension to the non-binding memorandum of understanding with SIPC, extending the expiry date from December 31, 2013 to December 31, 2014. The memorandum of understanding expired on December 31, 2014.

On March 1, 2012, the Corporation successfully closed the Global Offering on the SEHK, issuing 923,299,500 Common Shares at HK\$4.86 per share, raising gross proceeds of \$569.9 million (HK\$4.5 billion). No Shares were issued in Canada pursuant to the Global Offering. The Corporation trades on the SEHK under the symbol “2012”.

Also in conjunction with the Global Offering, the balance of \$230.2 million of the share repurchase obligation, including 433,884,300 Common Shares (originally comprised of 289,256,200 Class “A” common shares and 144,628,100 Class “B” common shares), were reclassified to share capital as the terms of the Subscription Agreements were agreed with the subscription holders to have been met and the share repurchase obligation was extinguished. Prior to closing of the IPO, 144,628,100 Class “B” common shares were exchanged for Class “A” common shares on a one for one basis and then cancelled.

On May 1, 2012, the Corporation became a “reporting issuer” (such term as defined under the *Securities Act (Alberta)*) in Alberta by way of an application to the ASC.

During June 2012, Sunshine repurchased 23,919,500 Common Shares for cancellation at an average price per Common Share of approximately \$0.62 (HK\$4.647), for total consideration of \$14.8 million.

Between September and the end of October 2012, Sunshine repurchased 61,172,000 Common Shares for cancellation at an average price per Common Share of approximately \$0.39 (HK\$3.093), for total consideration of \$23.9 million.

On October 11, 2012, the Corporation signed a \$200 million credit facility with a syndicate of financial institutions (the “**Credit Facility**”). In conjunction with the signing of the Credit Facility, the Corporation terminated its \$100 million Orient Credit Facility. On October 10, 2013, the Corporation’s Credit Facility matured and was cancelled by the Corporation.

On November 16, 2012, the Common Shares of the Corporation commenced trading on the TSX under the symbol “SUO”.

## 2013

On January 17, 2013, the Corporation entered into a non-binding memorandum of understanding with COSL to negotiate and communicate with each other in respect of cooperation in developing multiple thermal fluid oil sands exploration technology in Canada. The memorandum of understanding was non-binding and expired on January 17, 2014.

On August 6, 2013, Sunshine announced that in light of Sunshine's planned expenditures and ongoing capital requirements for its West Ells and other projects and its existing capital levels, the Board of Directors directed management of the Corporation to commence a strategic review process to identify, examine and consider a range of strategic alternatives available to Sunshine, with a view to progressing its oil sands development strategy and to preserving and maximizing shareholder value. The process could result in one or more strategic transactions being completed by the Corporation including, debt or equity financing of the Corporation, a joint venture or other strategic transaction involving Sunshine, or its assets, and a third party.

On August 18, 2013, Sunshine announced that construction work at its West Ells project site had been suspended pending receipt of additional funding.

Sunshine received regulatory approval from the AER on September 15, 2013 for the 10,000 bbl/d Thickwood project.

On October 10, 2013, the Corporation's Credit Facility matured and was cancelled by the Corporation.

On October 20, 2013, Sunshine entered into a joint operating agreement (the "**Joint Operating Agreement**") with Renergy with regards to Sunshine's Muskwa and Godin area oil sand leases, pursuant to which Renergy agreed to fund up to 100% of the initial joint operations conducted on the lands up to a maximum of \$250 million in return for a 50% working interest in the leases (excluding the carbonate formations therein), subject to reduction in certain circumstances.

On December 10, 2013, Sunshine completed a non-brokered private placement of a total of 106,800,000 units at a price of HK\$1.70. Each unit consisted of one Class "A" common share and one-third of one purchase warrant for aggregate gross proceeds of HK\$181,560,000 (approximately \$24.9 million). Each of the 35,600,000 purchase warrants has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until December 6, 2015. Sunshine granted 42,720,000 fee warrants to two finders in connection with the above financing. Each fee warrant has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until December 10, 2015. Sunshine also paid HK\$5,446,800 (approximately \$0.745 million) as a 3% finder's fee on this closing. The net proceeds from the above financing were used to address Sunshine's short term capital requirements, corporate objectives and for general corporate purposes.

Following suspension of construction at the Corporation's West Ells SAGD project, many of the Corporation's suppliers placed builders' liens on the Corporation's property to secure past due and unpaid invoices and/or have made claims against the Corporation. The aggregate value of the liens and claims was initially approximately \$121.8 million, exclusive of any interest or claimed legal costs. On December 12, 2013, the Corporation made a payment to all of its suppliers equal to 25% of the outstanding principal amounts claimed as owing to the suppliers as of December 3, 2013 and reached an initial forbearance agreement with such suppliers until February 28, 2014.

Further to the approval by the government of Alberta of the LARP in August 2012, the implementation of and compliance with the terms of the LARP was initiated on December 6, 2013. This implementation affected the Corporation's properties in the Harper area, where 24 agreements were altered in whole or in part with cancellation of Oil Sands Leases resulting in a loss of 102,365 hectares of land. Sunshine received compensation in the amount of \$4.9 million for the Oil Sands Leases cancelled by the government of Alberta on December 13, 2013. The resource impact assessment indicated a loss of recoverable resource; however, this loss was offset by the addition of recoverable resources resulting from the acquisition of 5,088 hectares in the Harper Birch River area in March of 2013.

## **2014**

On January 14, 2014, Sunshine completed a non-brokered private placement of a total of 45,588,235 units at a price of HK\$1.70. Each unit consisted of one Class "A" common share and one-third of one purchase warrant for aggregate gross proceeds of HK\$77,500,000 (approximately \$10.9 million). Each of the 15,196,078 purchase warrants has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until January 14, 2016. Sunshine granted 18,235,294 fee warrants to one finder in connection with the above financing. Each fee warrant has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until January 14, 2016. Sunshine also paid HK\$2,325,000 (approximately \$0.3 million) as a 3% finder's fee on this closing.

On January 21, 2014, Sunshine completed a non-brokered private placement of a total of 45,000,000 units at a price of HK\$1.70. Each unit consisted of one Class "A" common share and one-third of one purchase warrant for aggregate gross proceeds of HK\$76,500,000 (approximately \$10.8 million). Each of the 15,000,000 purchase warrants has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until January 21, 2016. Sunshine granted 18,000,000 fee warrants to one finder in connection with the above financing. Each fee warrant has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until January 21, 2016. Sunshine also paid HK\$2,295,000 (approximately \$0.3 million) as a 3% finder's fee on this closing.

On February 7, 2014, Sunshine completed a non-brokered private placement of a total of 45,000,000 units at a price of HK\$1.70. Each unit consisted of one Class “A” common share and one-third of one purchase warrant for aggregate gross proceeds of HK\$76,500,000 (approximately \$10.9 million). Each of the 15,000,000 purchase warrants has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until February 7, 2016. Sunshine granted 18,000,000 fee warrants to one finder in connection with the above financing. Each fee warrant has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until February 7, 2016.

On February 20, 2014, the Corporation made a second payment to all claimants and lienholders equal to 20% of the outstanding principal amounts owed as of December 3, 2013. In connection with the partial payments of outstanding amounts, all lienholders and claimants agreed to forbear on the enforcement of their liens and claims until May 31, 2014.

On February 28, 2014, Sunshine completed a non-brokered private placement of a total of 45,653,958 units at a price of HK\$1.70. Each unit consisted of one Class “A” common share and one-third of one purchase warrant for aggregate gross proceeds of HK\$77,611,729 (approximately \$11.1 million). Each of the 15,217,986 purchase warrants has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until February 28, 2016. Sunshine granted 18,261,583 fee warrants to one finder in connection with the above financing. Each fee warrant has an exercise price of HK\$1.88 (approximately \$0.26) and is exercisable until February 28, 2016. This private placement represents the first tranche of an irrevocable subscription for 84,000,000 units. On May 19, 2014, Sunshine cancelled the remaining balance of this subscription.

On June 25, 2014, Sunshine completed a non-brokered private placement (the “**June 2014 Private Placement**”) of a total of 640,000,000 Common Shares at a price of HK\$0.85 per Common Share (approximately \$0.12 per Common Share at the time of closing) for aggregate gross proceeds of HK\$544 million (approximately \$76.25 million at the time of closing).

On July 21, 2014, the Corporation sold certain non-core oil sands assets to a third party industry partner for total consideration of \$20 million.

On August 8, 2014, the Corporation closed an offering of US\$200 million of 10% senior secured notes (the “**Notes**”) issued at a price of US\$938.01 per US\$1,000 principal amount. The Notes are described in further detail under the heading “*Description of Share Capital and Debt Securities – Notes*”.

On August 18, 2014, the Corporation formally terminated the strategic alternatives review process that was initiated in August of 2013 with the securing of financing to recommence construction of the first 5,000 bbl/d phase of the West Ells project.

## **2015**

In March 2015, Sunshine announced it had extended its commissioning and start up period for the first phase of its West Ells SAGD facilities operation.

## **SIGNIFICANT ACQUISITIONS**

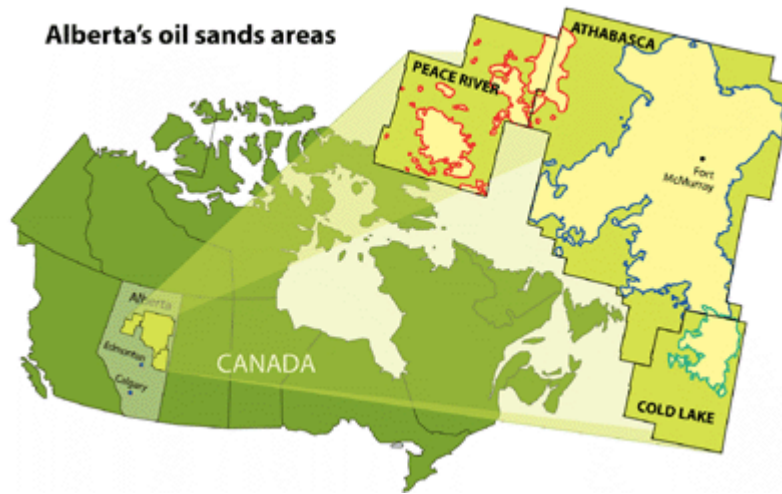
Sunshine did not complete any significant acquisitions during the financial year ended December 31, 2014 for which disclosure is required under Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations*.

## **DESCRIPTION OF THE BUSINESS**

### **Overview**

Sunshine is headquartered in Calgary, Alberta and the Corporation’s principal operations are the evaluation and development of its diverse portfolio of Oil Sands Leases in the Athabasca region of the Province of Alberta. The Corporation’s seven principal operating regions in the Athabasca area are at West Ells, Thickwood, Legend, Harper, Muskwa, Goffer and Portage. In addition, the Corporation has non-principal areas with no immediate development plans located at East Long Lake, Crow Lake, Godin, Saleski and South Thickwood. The Athabasca region is the largest oil sands region in Alberta, and Canada’s oil sands represent the largest oil resource found in a stable political environment located in the western hemisphere and the third

largest oil resource in the world, with 168 billion bbls of estimated resources. The Canadian oil sands are the largest single source of supply of oil imported into the United States.



Source: AER

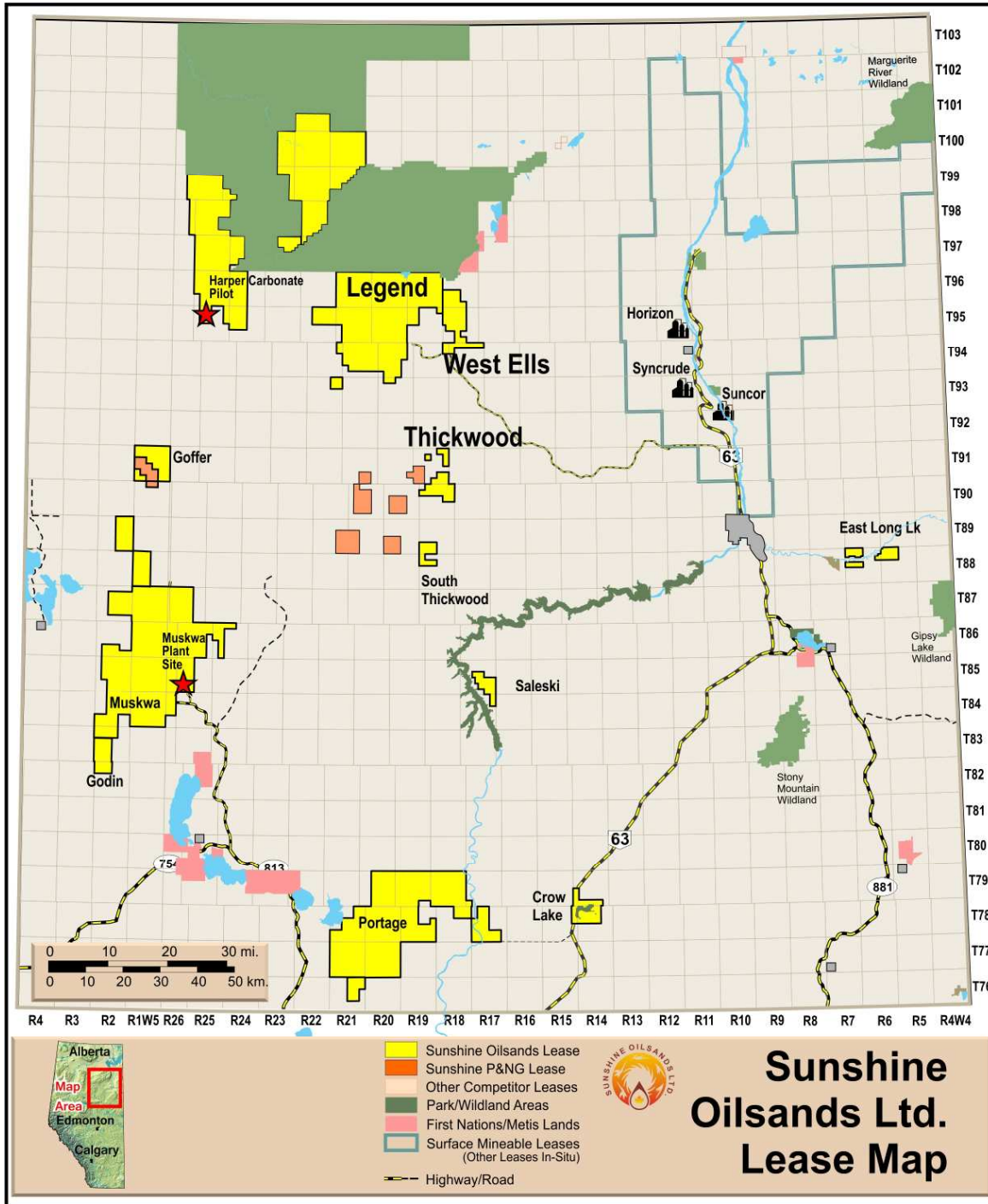
Sunshine is focused on development of its assets, having undertaken construction development at West Ells and, in late 2013, Sunshine obtained approval for a 10,000 bbl/d project at Thickwood. Sunshine is awaiting regulatory approval for an additional 10,000 bbl/d project at Legend, with such approval being anticipated in 2015. Incremental development of West Ells, Thickwood and Legend in modular and scalable phases will assist in managing project timing and cost pressures, as well as allowing Sunshine to take advantage of any improvements in recovery technologies. With approximately 3.4 billion bbls of best estimate contingent resources and 436 MMbbls of proved plus probable reserves, Sunshine has significant commercial development potential. Sunshine's commercial development plans in the West Ells, Thickwood and Legend areas target 300,000 bbl/d of production from these areas.

### Oil Sands Leases

We hold approximately 1,039,127 acres (approximately 415,651 hectares) of leases (including our Oil Sands Leases and our PNG Leases and Licences) in the Athabasca oil sands region of north eastern Alberta that we have acquired, primarily through Crown Land Sales and also by purchases from third parties, for approximately \$81.5 million. We have a 100% working interest in almost all of our oil sand leases with the exception of our oil sand leases in the Godin and Muskwa region (in which we have retained our 100% working interest position in the carbonate formations but have granted Renergy a 50% working interest in the clastic formations pursuant and subject to the terms of the Joint Operating Agreement). Our portfolio of Oil Sands Leases consists of three distinct asset categories: clastics, carbonates and conventional heavy oil.

The map below highlights our Oil Sands Leases.

Figure 1: Sunshine Oilsands Ltd. Lease Map



This AIF includes estimates of our reserves and resources made by GLJ and D&M. These estimates are described in the section titled “Statement of Reserves Data and Other Oil and Gas Information”.



## **Development of Our Assets**

### **West Ells**

The West Ells asset area consists of approximately 9,600 hectares of contiguous oil sands leases and is located within the Athabasca oil sands region between townships 94 to 96 and ranges 17 and 18 west of the fourth meridian. This area is contiguous with the Corporation's Legend asset area, providing synergies in development plans for the combined area. The area is located approximately 80km to the northwest of the city of Fort McMurray, with permanent road access completed to the West Ells site. This permanent road access links West Ells to Provincial Highway 63 just north of Fort McMurray. In addition, natural gas pipeline infrastructure exists in the immediate West Ells area and is in the process of being connected to the West Ells site.

The bitumen reservoir at West Ells is contained in the Wabiskaw member of the Clearwater formation, which is a clastic reservoir. In the GLJ Report, GLJ has assigned an estimated 86 MMbbls of proved undeveloped reserves, 140 MMbbls of proved plus probable undeveloped reserves and 640 MMbbls of best estimate contingent resources. The asset is expected to be exploitable using proven SAGD technology. The Corporation has a 100% working interest with an ultimate development potential of 130,000 bbls of bitumen per day.

### ***Project Development***

Sunshine obtained regulatory approval for the first 10,000 bbl/d SAGD facility on January 26, 2012 (West Ells Phase 1 and 2), and the project began construction in late 2012. Significant progress was made at West Ells with the first steam anticipated for the fourth quarter of 2013; however, progress was cut short by the difficult but necessary decision to suspend construction on August 18, 2013 due to insufficient capital. With the first 5,000 bbl/d pad of 8 well pairs already drilled and completed, drilling was completed on the second 5,000 bbl/d pad of a further 8 well pairs and then the wells were suspended to await completion activities.

Following the August 18, 2013, suspension of West Ells construction, Sunshine completed an extensive re-examination of capital costs for the West Ells Project, Phase 1 and 2, including costs associated with suspending and then restarting engineering, procurement and construction activities. The central processing facility and the site were winterized to protect the assets pending funding. With funding in place, project construction re-commenced in October 2014.

For the year ended December 31, 2014, \$42.2 million has been incurred for West Ells equipment, engineering construction, civil works, drilling, completions and other post-suspension project related expenditures.

To date, Sunshine has completed:

- Phase 1 drilling and completion of eight well pairs;
- Phase 2 drilling of eight well pairs;
- In 2014, activities supporting construction re-commencement were completed;
- Construction re-commenced on West Ells' Phase 1 5,000 bbl/d facility in October 2014;
- Phase 1 facility is nearly complete, with first steam currently estimated in June 2015; and
- Phase 2 facility is 22% complete.

The Corporation plans to complete the following key project activities in 2015: mechanical and electrical installation; final commissioning; and commencement of SAGD start-up operations.

The initial West Ells 5,000 bbl/d facility represents a 5<sup>th</sup> generation SAGD plant, using proven technology for the surface facilities.

Sunshine plans to develop the West Ells asset area using a staged development strategy. Phase 1 is expected to provide the initial 5,000 bbl/d of production, while Phase 2 is expected to provide an additional 5,000 bbl/d of the Corporation's 300,000

bbl/d development plan in the clastics. Sunshine has the potential to develop the West Ells asset (130,000 bbl/d) in conjunction with the Legend area (100,000 bbl/d), providing an estimated 230,000 bbl/d of production capacity towards this strategy. In support of this, the Corporation has progressed environmental field work and completed engineering efforts in support of commercial applications planned for 2016 in Legend.

### **Thickwood**

The Thickwood region consists of Oil Sands Leases covering 7,936 hectares of oil sands leases and is located within the Athabasca oil sands region between Townships 90 and 91 and Range 18 west of the fourth meridian, approximately 90 km from Fort McMurray and 40 km from West Ells.

The bitumen reservoir at Thickwood is contained in the Wabiskaw member of the Clearwater formation, which is a clastic reservoir. The GLJ Report shows an estimated 160 MMbbls of probable undeveloped reserves and 278 MMbbls of best estimate contingent resources with an ultimate production potential of 70,000 bbl/d, in which the Corporation has a 100% working interest. The asset is expected to be exploited using proven SAGD technology.

### ***Project Development***

The Corporation filed an application for regulatory approval for the first 10,000 bbl/d project in October 2011 and approval was obtained in September 2013. Since then, the Corporation has continued its internal design and planning for development of this asset.

Following completion of Phase 2 of the 10,000 bbl/d West Ells SAGD project, Sunshine intends to develop the Thickwood area in phases in order to control costs, implement improvements in recovery technologies and improve efficiency.

Sunshine plans to further develop the Thickwood asset area using a staged development strategy. Commercial expansion of this area to 70,000 bbl/d is a key component of the Corporation's 300,000 bbl/d development plan in the clastics.

### **Legend**

The Legend asset area consists of 9,216 hectares of oil sands leases and is located within the Athabasca oil sands region in Township 96 and Range 18 west of the fourth meridian, approximately 100 km from Fort McMurray and 15 km from West Ells. The Legend lease area is contiguous with the West Ells leases, and will therefore benefit from synergies in long term development including permanent road access, natural gas infrastructure, and location of key plant facilities

The bitumen reservoir at Legend is contained in the Wabiskaw member of the Clearwater formation, which is a clastic reservoir. The GLJ Report shows an estimated 135 MMbbls of proved plus probable reserves and 579 MMbbls of best estimate contingent resources. The Corporation is estimating an ultimate production potential of 100,000 bbl/d from this asset area, in which the Corporation has a 100% working interest. The asset is expected to be exploitable using proven SAGD technology.

### ***Project Development***

In November 2011, the Corporation filed an application for regulatory approval for the first 10,000 bbl/d SAGD Project at Legend. Sunshine responded to the initial round of SIR's from the regulators in 2012 and completed the final set of SIR's in December 2013. Regulatory approval is expected in 2015, and the Corporation has progressed internal engineering design efforts for the project.

Sunshine estimates there is an ultimate development potential of over 100,000 bbl/d of bitumen from the Legend area. When combined with the estimated 130,000 bbl/d from West Ells, this results in an estimated total production capacity for the area of 230,000 bbl/d. Sunshine is progressing with internal design and planning for development of this asset.

Following completion of Phase 2 of the 10,000 bbl/d West Ells SAGD project, Sunshine intends to develop the Legend area through phases to control costs, implement improvements in recovery technologies and capture efficiencies.

## 2015 Drilling Program

There were no drilling programs conducted in the 2013/2014 or 2014/2015 winter seasons. The last drilling that occurred was for West Ells Phase 2 SAGD wells and all drilling was completed by August 2013. Sunshine currently has no plans for further drilling in 2015.

## Other Clastic Assets

In addition to the three core areas that have been identified to date for commercial development, we are continuing to evaluate other clastic areas, in part through future delineation programs to expand these existing commercial areas and potentially identify new commercial areas. We will continue to monitor and assess the results of each winter program as we weigh our investment decisions in order to maximise value. The other clastic areas (Harper, Muskwa/Godin, Portage and East Long Lake) have been estimated to contain 1,007 MMbbl of best estimate contingent resources by our Independent Evaluators as at December 31, 2014. As described below, these properties are not subject to near term mineral agreement expiry issues.

## Joint Venture

On October 20, 2013, Sunshine announced it had entered into the Joint Operating Agreement with Renergy in respect of Sunshine's Muskwa and Godin oil sands leases (excluding the carbonate formations contained therein). In exchange for a 50% working interest in these oil sands leases, Renergy agreed to fund 100% of the initial joint operations conducted on the lands up to a fixed maximum amount of \$250 million (the "**Commitment Cap**") in order to meet a production target of 5,000 barrels per day (the "**Production Target**"). Renergy, as operator, can deploy funding in its discretion until the earlier of when it funds up to the Commitment Cap or until production from the lands over any 20 consecutive days period equals or exceeds the Production Target.

In the event that the Commitment Cap or Production Target is not reached by an outside date (being the earlier of three years the date of receipt of all required regulatory approvals in respect of the first phase of discrete operations and October 20, 2019), Renergy's working interest shall be reduced commensurate to the lesser of either the difference between the funding contributions it made and the Commitment Cap or the difference between the average production achieved from the lands compared to the Production Target.

Renergy obtained approval for a steam and carbon dioxide co-generation co-injection thermal pilot project on January 26, 2015.

## Carbonates

The Corporation's land base includes a significant bitumen resource in the carbonates, with resources in six different horizons. The Independent Reports have attributed best estimate contingent resources of 132 MMbbls to the Leduc at West Ells, and 715 MMbbls in the Upper Ireton, Nisku, Blueridge, and Wabamun formations in Portage, Goffer and Muskwa. An additional 284 MMbbls have been assigned to the Grosmont formation in Harper as sub-economic contingent resources.

The Corporation has progressed development of the carbonates through delineation drilling in each area, detailed reservoir characterization, and field piloting in the Harper area. Internal technical analyses of this data continues to progress with a focus on optimizing recovery techniques and development planning.

## Location and Size

The Harper area contains a total of 383 sections. The Grosmont formation is well known as a thick, vuggy, and highly fractured and permeable dolomite reservoir with high bitumen content. Sunshine's project area is located approximately 19 km north of Shell Canada's significant oil sands leases in Townships 95 to 99, Ranges 23 to 25. The Corporation executed a field pilot to evaluate CSS technology at Harper over the winter seasons of 2010 and 2011. This pilot provided key data in regard to fluid mobility and reservoir characterization within the Grosmont that has been incorporated into reservoir models to optimize thermal recovery schemes. The GLJ Report indicates 284 MMbbl of best estimate contingent resources. These volumes do not meet the 10% discount rate used by GLJ and have been classified as "sub-economic" at this time. As such,

volumes can be disclosed but not the economic value. “Sub-economic” resources may become economic at higher commodity prices. It is anticipated that with a sustained WTI price of US\$101/bbl and further project definition, the project may reasonably achieve a 10% rate of return and be reclassified as “economic” best estimate contingent resources.

In December 2013, the implementation of LARP affected the Corporation’s properties in the Harper and East Long Lake area, where 24 agreements were altered in whole or in part with cancellation of Oil Sands Leases resulting in a loss of approximately 84,000 hectares of land. This resulted in a loss of recoverable resource; however, this loss is offset by the addition of recoverable resources resulting from the acquisition of 5,088 hectares in the Harper Birch River area in March of 2013.

The Ells Leduc carbonate resource includes 31 sections and covers the northern-most extension of the Leduc carbonate reef margin trend. Sunshine’s project area is located approximately 3 km north of Athabasca Oil Corp.’s Leduc TAGD pilot area in Townships 95 and 96, Ranges 18 and 19 west of the fourth meridian. The Leduc reef margin in this area is an attractive bitumen carbonate prospect, consisting of a highly fractured dolomitized reservoir with an extensive vuggy porosity and permeability system. The GLJ Report indicates 132 MMbbls of best estimate contingent resource to the Corporation’s Ells Leduc carbonates.

The Corporation also holds resources in the Portage, Goffer and Muskwa areas, in the Upper Ireton, Nisku, Blueridge, and Wabamun formations. The D&M Report indicates 715 MMbbls of best estimate contingent resource from these areas.

The Portage region consists of 287 sections, of which 152 sections include bitumen carbonate resource potential with the Upper and Lower Nisku Formation. Sunshine’s project area is located within the Athabasca oil sands region between Townships 76 and 79 and Ranges 17 and 21 west of the fourth meridian. The Nisku zone at Portage is dolomitized and fractured, and has both an intercrystalline and extensive vuggy porosity system making this a highly permeable pay zone with high bitumen saturation. This region offers conventional heavy oil production as well as significant carbonate development potential. The area also benefits from oil and gas development infrastructure in the area, including access to roads, labour, and services.

The Goffer area contains 36 contiguous sections of bitumen carbonate resource and is located in Townships 91 and 92, Range 1 west of the fifth meridian. Two bitumen carbonate zones have been identified and mapped over this asset: the Upper Ireton and Nisku. The Upper Ireton is a bitumen saturated extensively fractured and brecciated carbonate with intercrystalline porosity. The thick Nisku pay zone is also a bitumen saturated fractured carbonate with intercrystalline porosity, as well as vuggy porosity that enhance this reservoir’s porosity and permeability.

The Muskwa area covers 337 contiguous sections of carbonate resource, located in Townships 83–89, Ranges 24–26W4 and 1-2W5 within the Athabasca oil sands region. The Corporation’s bitumen carbonate resource is contained within the Wabamun, Blueridge and Nisku formations. Like the Nisku, the Wabamun and Blueridge pay zones in the Muskwa area are a bitumen saturated, highly porous and permeable dolomitized and fractured reservoir, with vuggy and intercrystalline porosity.

### ***Project Development***

The Corporation’s technical teams continue to collect, map, and evaluate the large amount of well log, core, and reservoir data to characterize and rank the opportunity that exists on each of the Corporation’s five main carbonate properties (Harper, Ells, Portage, Goffer, and Muskwa). The drilling of additional delineation wells over these properties is anticipated over the coming drilling seasons following completion of Phase 2 of the 10,000 bbls/d West Ells SAGD project. The Corporation’s carbonate workflow model will utilize this extensive carbonate data set to develop reservoir models and simulations that will lead to optimal development plans and exploitation strategies.

### **Conventional Heavy Oil**

Sunshine has identified conventional heavy oil opportunities across several areas within our land base, including Muskwa, Harper, Godin and Portage. The development of these conventional oil reservoirs may not require thermal stimulation but,

due to their location, should benefit from the Alberta oil sands royalty structure. This provides an economic advantage over heavy oil in other locations. The most advanced of these projects is in the Muskwa area where, prior to the joint venture agreement with Renergy, we executed several stages of preliminary exploration and development spending. We demonstrated sustained production from several well types, including horizontal, slant and vertical wells.

Our Muskwa property began producing in September 2010. Production volumes from the Muskwa property are not economic. On October 20, 2013, we entered into the Joint Operating Agreement with Renergy, pursuant to which we granted a 50% working interest in the clastic formations contained in our oil sands leases in the region.

Sunshine continues to work with Renergy on short term and long term planning and thermal technology evaluation for potential development in the Muskwa and Godin areas. The first thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015. Renergy, as operator, suspended production operations in December 2014 based on project economics and future long term planning.

## **Regional Infrastructure**

### ***Product Movement***

We intend to transport early SAGD production volumes by truck via year round access roads. In early stages of development, below 10,000 bbl/d at any site, the trucks will also be used to transport diluent to site for use in the extraction process and for blending with the bitumen to make it ready for transportation and sale. Options are currently being reviewed to identify the delivery point to which the blend will be trucked. This could include delivery to pipeline or rail sales points. In conjunction with developing SAGD facilities, we also intend to develop related infrastructure such as a main access road, spur roads and natural gas pipelines. Once higher production levels are achieved, pipeline transportation is expected to be available from third parties to satisfy the need for takeaway capacity for the regional developing projects.

We shared the total cost of our all season road with industry partners. The all season road has a wide running surface capable of managing heavy loads, construction modules and equipment and will be available for public use without liability to us. Industry users will pay us for their use of the road.

### ***Water Source***

We require water to generate steam for our SAGD recovery process. We have explored for and confirmed the presence of a significant water source located in the Viking Formation. This shoreline complex is mapped up to 65m thick at the apex and is spread over three Townships, or over 279 km<sup>2</sup>. The average porosity for the Viking water sand is generally 35% in the West Ells and Legend areas. This complex contains an estimated 19 billion bbls of water supply underlying our leases. This water is not utilized for any other purposes. We understand that, under the *Water Act*, the AESRD has the discretion to require that security requirements be imposed pursuant to the requirements set out by the regulations. To date, the regulations only require that security be provided if an approval is cancelled or suspended under the *Water Act*. Generally, AESRD may suspend or cancel a licence in a number of situations, including at the request for a licensee, if a licensee is indebted to the government of Alberta or for non-compliance with the *Water Act*. There is also no royalty or fee owed to the Crown for water usage. Having consulted with our Canadian legal advisers, we anticipate no material issues or complications with obtaining the water licence nor any issues with the ongoing utilisation of this water source.

We have drilled and licenced 3 water source wells for the West Ells operation. Two more water wells were drilled and tested for deliverability, the wells will be tied-in for future project expansion. We do not receive any government subsidies for water. In addition to our Viking, non-saline water source, we are exploring saline water sources that we have identified in the Devonian Leduc and Grosmont Formations for long term operations.

### ***Natural Gas***

We require natural gas to fuel our steam generators and to generate electricity to power our pumps and other equipment for our SAGD processing. We intend to purchase natural gas on the TCPL intra-Alberta pipeline system. Access to this pipeline

system would allow Sunshine to purchase interruptible and firm gas on the open Alberta market. This market is liquid and robust.

### ***Cogeneration of Power***

Sunshine has incorporated plans to integrate cogeneration into our SAGD projects throughout their lives. Integrated natural gas driven cogeneration is typically more economic than purchasing electricity from the grid, and has fewer emissions than coal power generation. For the West Ells project, Sunshine applied for and received approval from the AUC for a power plant generating a total capacity of 24 MW of electricity on June 12, 2013. Sunshine has also applied for approval for an Industrial System Designation to facilitate power distribution around the entire site. The cogeneration units may also be tied into the Alberta electrical grid to sell surplus power to the grid when it is established in the project area and economically feasible. In addition, we expect the grid will eventually provide backstopping to the projects.

Over time, as commercial projects for bitumen extraction are established in the region, we anticipate that transmission lines will be tied into the grid. At least one incumbent transmission facility owner is well advanced in its proposed siting of facilities near Sunshine's West Ells project and applications have been filed with the AUC. Critical demand levels are required to trigger the applicable transmission facility owner to allocate capital for new transmission lines. Alternatively, the *Transmission Deficiency Regulation*, Alta Reg 176/2014 and amendments to the *Transmission Regulation*, Alta Reg 86/2007 were introduced in 2014 and permit oil sands and other industrial operators to construct their own radial transmission lines for the purposes of providing power from the provincial grid to their operations under certain circumstances and by constructing the transmission line themselves and paying the capital charges up front.

### ***Diluent***

We do not intend to upgrade our bitumen, and expect to utilize condensate as a diluent. We anticipate that, prior to the installation of dilbit and diluent pipelines, trucks will be used for transportation of volumes to and from the site. We expect that trucks and/or railcars returning from the delivery of blended dilbit will be loaded with diluent, which we expect will be stored on site for use in the SAGD process and for blending of future production volume. The condensate will come from various condensate hubs in Alberta. We anticipate diluent for future project phases will come from various potential suppliers. We are currently considering options for the diluent supply for the West Ells project and we are reviewing diluent supply arrangements.

### ***Marketing of Bitumen Blend***

We anticipate that our bitumen will be blended with diluent and sold as a dilbit or railbit. These products are sold to refineries in Canada and the United States. Our conventional heavy oil is typically priced off the Canadian benchmark crude known as Western Canadian Select, which is priced at Hardisty at a monthly floating differential to WTI. We expect our bitumen will be similarly priced though at a discount to Western Canadian Select due to deductions for quality and transportation.

### ***Revenue***

The revenue that a producer ultimately receives for one barrel of bitumen production is derived from the price of bitumen blend, less transportation and diluent costs. The price for bitumen blend is benchmarked to conventional heavy oil at various locations, which in turn typically trades at a discount to light oil benchmarks such as WTI at Cushing, Oklahoma or Edmonton Par in Alberta.

Bitumen revenue depends on the cost of diluent and the blending ratio required to create bitumen blend. The price of diluent varies depending on its quality attributes, although it typically trades at a price that is similar to WTI or Edmonton Par. We understand the supply of diluent to be currently adequate in the oil sands region, with imports from the U.S., and management expects to be able to source sufficient quantities to satisfy blending requirements.

## Royalties

Alberta requires royalties be paid on the production of natural resources from lands for which it owns the mineral rights. The Government of Alberta's royalty share from oil sands production is price-sensitive. The royalty range applicable to price sensitivities changes depending on whether the project's status is pre-payout or post-payout. "Payout" is generally defined as the point in time when a project has generated enough net revenue to recover its costs and provide a designated return allowance. The base pre-payout royalty rate starts at 1% of gross revenue and increases for every dollar that the world oil price, as reflected by 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 post-payout royalty rate, on the other hand, is based on net revenue, and starts at 25% and increases for every dollar the WTI crude oil price is above \$55 per barrel to a maximum of 40% when the WTI crude oil price is \$120 per barrel or higher. Specified capital and operating costs may be deducted to arrive at net revenue for this calculation.

## Industry Conditions

Both the Canadian and international oil industry are highly competitive. Oil producers compete with each other in a number of areas, including in attracting and retaining experienced and skilled personnel, the procurement of equipment, access to capital markets, the exploration for, and the development of, new sources of supply, the acquisition of oil interests, the distribution and marketing of petroleum products, and obtaining means of transportation. Sunshine will directly compete with other producers of bitumen, bitumen blends, synthetic crude oil and conventional crude oil. Some of these competitors have lower costs and greater financial and other resources than Sunshine. A number of competitors have significantly longer operating histories and have more widely recognised brand names, which could give such competitors advantages in attracting customers, partners and employees. We propose to leverage our contacts in Asia, and in particular China, in order to source more cost-effective supplies, plant and equipment to support our developments.

## Employees

At December 31, 2014, Sunshine had 87 full time employees.

## Memorandum of Understanding for Strategic Cooperation with SIPC

We entered into a non-binding memorandum of understanding in February 2012 with SIPC, a wholly owned subsidiary of Sinopec, with a view to forming a strategic alliance and to carry out strategic cooperation. Sinopec is one of the major state owned petroleum and petrochemical groups in China. SIPC partnered with China Investment Corporation, a sovereign wealth fund of China, in evaluating the opportunity. The parties intention was to examine opportunities for joint participation in the development, exploration and production of oil sands leases, as well as other mutually agreed investments and projects in Canada and globally. SIPC is a wholly owned subsidiary and integrated strategic business unit of Sinopec that is engaged in overseas oil and gas exploration and production investments and business operations, as well as carrying out Sinopec's overseas upstream investments and operations. One of Sunshine's strategies is to work closely with multinationals in areas such as logistics, procurement, construction, technology and financing in order to increase our production through joint exploration and development activities.

At the present time, no specific details in relation to joint cooperation projects, the form and funding of any investments or their timing have been agreed between the Corporation and SIPC, nor have any such projects arisen. In late 2013, the non-binding memorandum of understanding was extended to and subsequently expired on December 31, 2014.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

### Overview

The information set forth below relating to the Corporation's reserves and resources includes forward-looking information, which is subject to certain risks and uncertainties. Please see the sections titled "*Forward-Looking Statements*" and "*Risk Factors*" for further discussion.

### ***Independent Reports***

The Corporation engaged the Independent Evaluators to prepare independent reserve and resource assessments for its assets effective as of December 31, 2014.

The GLJ Report was prepared on March 2, 2015. The D&M Report was prepared on March 3, 2015.

- **GLJ Report** – GLJ evaluated the Corporation’s assets at West Ells, Thickwood, Legend, East Long Lake, Crow Lake, Ells Leduc and Harper (carbonates only).
- **D&M Report** – D&M evaluated the Corporation’s assets at Portage, Harper (clastic only), Muskwa, Godin and Goffer.

The Independent Evaluators carried out their evaluations in accordance with the COGE Handbook and standards established by the Canadian Securities Administrators in NI 51-101. All of the Corporation’s properties are located in the Province of Alberta and are described elsewhere in this Annual Information Form.

GLJ’s Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor and Report on Resources Data by Independent Qualified Reserves Evaluator or Auditor and D&M’s Report on Resources Data by Independent Qualified Reserves Evaluator or Auditor are set forth in Schedule “A” to this AIF. The Corporation’s Report of Management and Directors on Oil and Gas Disclosure is set forth in Schedule “B” to this AIF.

The evaluation procedures employed by GLJ and D&M are in accordance with standards contained in the COGE Handbook, and the aggregate reserve and resource estimates and valuations presented in this section are arithmetic sums of the reserves and resource estimates and valuations contained in the Independent Reports. Gross reserves are the Corporation’s working interest share before deducting royalties and without including any royalty interests of the Corporation. Net reserves are the Corporation’s working interest share after deduction of royalty obligations, plus the Corporation’s royalty interests in reserves.

### ***Reserves and Resources Classification***

As an *in-situ* bitumen project is developed, the estimated recoverable volumes will be classified according to their stage of development. Before filing a regulatory application seeking approval to proceed with a development project, the associated estimated recoverable volumes are categorized as contingent resources and are sub-categorized in low, best and high estimate cases. Upon filing for regulatory approval, and assuming no other significant contingencies exist, the estimated volumes associated with the development project are categorized as reserves and may be sub-categorized as probable and possible reserves. Upon the receipt of regulatory and internal corporate approvals, and assuming no other significant contingencies exist, the estimated volumes associated with an *in-situ* bitumen development project may be sub-categorized as proved reserves.

Proved undeveloped reserves have been assigned by GLJ to Sunshine’s West Ells 10,000 bbl/d development. Probable undeveloped reserves have been assigned by GLJ to Thickwood, which has regulatory approval. Application has been submitted for regulatory approval of Legend’s first phase 10,000 bbl/d developments and approval is pending.

### **Reserves Data**

Set out below is a summary of the Corporation’s reserves including the value of future net revenue of the Corporation from the reserves as at December 31, 2014 as evaluated by GLJ in the GLJ Report. The pricing used in the forecast price evaluations is set forth below under the sub-heading “*Pricing Assumptions*”.



**Summary of Oil and Gas Reserves and Net Present Values of Future Net Revenue –  
Forecast Prices and Costs as of December 31, 2014**

Reserves Category	Bitumen		Total Oil Equivalent	
	Gross (Mbbl)	Net (Mbbl)	Gross (Mboe)	Net (Mboe)
PROVED				
Producing	-	-	-	-
Developed Non-producing	-	-	-	-
Undeveloped	85,730	76,093	85,730	76,093
TOTAL PROVED	85,730	76,093	85,730	76,093
TOTAL PROBABLE	350,129	289,054	350,129	289,054
TOTAL PROVED PLUS PROBABLE	435,858	365,146	435,858	365,146
TOTAL POSSIBLE	166,088	123,632	166,088	123,632
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	601,946	488,778	601,946	488,778

**Net Present Value Summary**

Reserves Category	Net Present Values of Future Net Revenue					Unit Value Before Income Tax
	Before Income Taxes Discounted At (% per year)					Discounted at 10% per year
	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)	\$/boe
PROVED						
Producing	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-
Undeveloped	1,358,813	514,399	168,934	9,637	(71,468)	2.22
TOTAL PROVED	1,358,813	514,399	168,934	9,637	(71,468)	2.22
TOTAL PROBABLE	9,181,289	2,143,596	481,542	(38,636)	(234,495)	1.67
TOTAL PROVED PLUS PROBABLE	10,540,102	2,657,995	650,476	(28,998)	(305,964)	1.78
TOTAL POSSIBLE	5,660,987	1,875,122	715,783	301,613	131,886	1.02
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	16,201,089	4,533,117	1,366,259	272,615	(174,078)	2.80

Reserves Category	Net Present Values of Future Net Revenue				
	After Income Taxes Discounted At (% per year)				
	0%	5%	10%	15%	20%
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
PROVED					
Producing	-	-	-	-	-
Developed Non-producing	-	-	-	-	-
Undeveloped	1,228,605	470,619	153,254	3,694	(73,839)
TOTAL PROVED	1,228,605	470,619	153,254	3,694	(73,839)
TOTAL PROBABLE	6,852,656	1,504,584	253,105	(137,365)	(282,940)
TOTAL PROVED PLUS PROBABLE	8,081,261	1,975,203	406,359	(133,670)	(356,778)
TOTAL POSSIBLE	4,262,356	1,379,633	507,653	200,569	77,338
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	12,343,617	3,354,836	914,012	66,899	(279,440)

**Total Future Net Revenue (Undiscounted) – Forecast Prices and Costs as of December 31, 2014**

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Capital Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Future Income Tax Expenses (M\$)	Future Net Revenue After Income Taxes (M\$)
Total Proved	6,748,547	790,975	2,647,168	1,869,898	81,692	1,358,813	130,208	1,228,605
Total Proved Plus Probable	41,976,082	7,122,928	13,285,516	10,585,121	442,414	10,540,102	2,458,841	8,081,261
Total Proved Plus Probable Plus Possible	56,408,521	11,003,560	16,523,054	12,185,957	494,861	16,201,089	3,857,473	12,343,617

## Future Net Revenue by Production Group – Forecast Prices and Costs as of December 31, 2014

Reserves Category	Production Group	Future Net Revenue Before Income Taxes	
		(Discounted at 10% per year)	
		Present Value (M\$)	\$/boe
<b>Proved</b>			
	Bitumen	168,934	2.22
Total Proved		168,934	2.22
<b>Proved Plus Probable</b>			
	Bitumen	650,476	1.78
Total Proved Plus Probable		650,476	1.78
<b>Proved Plus Probable Plus Possible</b>			
	Bitumen	1,366,259	2.80
Total Proved Plus Probable Plus Possible		1,366,259	2.80

### Pricing Assumptions

The price forecast used in the GLJ and D&M December 31, 2014 reserves assessment that formed the basis for the revenue projections and net present value estimates in the independent reports were based on GLJ's January 1, 2015 pricing forecast with an effective date of December 31, 2014. A summary of this price forecast is set forth below.

### GLJ Pricing Forecast Effective December 31, 2014

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @Cushing \$US/bbl	Edm. Oil Edmonton Light \$/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API Hardisty \$/bbl	NYMEX Henry Hub Reference US\$/MMBtu	AECO Spot (\$/MMbtu)	Edmonton Pentanes Plus \$/bbl
2015	2	0.85	62.50	64.71	54.35	48.89	3.31	3.31	69.24
2016	2	0.875	75.00	80.00	67.20	60.68	3.75	3.77	85.60
2017	2	0.875	80.00	85.71	72.00	65.09	4.00	4.02	91.71
2018	2	0.875	85.00	91.43	76.80	69.49	4.25	4.27	97.83
2019	2	0.875	90.00	97.14	81.60	73.90	4.50	4.53	103.94
2020	2	0.875	95.00	102.86	86.40	78.30	4.75	4.78	110.06
2021	2	0.875	98.54	106.18	89.19	80.87	5.00	5.03	113.62
2022	2	0.875	100.51	108.31	90.98	82.51	5.25	5.28	115.89
2023	2	0.875	102.52	110.47	92.79	84.17	5.50	5.53	118.20
2024	2	0.875	104.57	112.67	94.65	85.87	5.68	5.71	120.56

2025+                      escalate oil, gas and product prices at 2% per year thereafter

## Reconciliation of Changes in Reserves

### Reconciliation of Corporation's Gross Reserves - Forecast Prices and Costs as of December 31, 2014

Factors	Heavy Oil				Bitumen				Oil Equivalent			
	Proved (MMbbl)	Probable (MMbbl)	Proved Plus Probable (MMbbl)	Proved Plus Probable Plus Possible (MMbbl)	Proved (MMbbl)	Probable (MMbbl)	Proved Plus Probable (MMbbl)	Proved Plus Probable Plus Possible (MMbbl)	Proved (MMboe)	Probable (MMboe)	Proved Plus Probable (MMboe)	Proved Plus Probable Plus Possible (MMboe)
<b>December 31, 2013</b>	-	-	-	-	79	364	444	579	79	364	444	579
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions*	-	-	-	-	-	-	-	-	-	-	-	-
Infill Drilling*	-	-	-	-	7	(7)	-	-	7	(7)	-	-
Improved Recovery*	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	(8)	(8)	23	-	(8)	(8)	23
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions <sup>(1)</sup>	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
<b>December 31, 2014</b>	-	-	-	-	86	350	436	602	86	350	436	602

#### Notes:

- (1) On July 21, 2014, Sunshine completed the disposition of certain non-core oil sands assets which relate to, among other things, lands and petroleum and natural gas rights to a third party industry partner for a total consideration of \$20 million.
- (2) The numbers in this table may not add exactly due to rounding.

#### Additional Information Relating to Reserves Data

The Independent Reports estimate the Corporation's gross proved undeveloped reserves to be 86 MMbbls and proved plus probable undeveloped reserves to be 436 MMbbls. All of the Corporation's reserves will be developed with the start-up and commissioning of both the first and second 5,000 bbl/d phases at West Ells as well as with approval, construction, start-up and commissioning of additional first 10,000 bbl/d phases at Thickwood and Legend.

**Undeveloped Reserves**

The following table presents the Corporation's gross proved undeveloped and probable undeveloped reserves that were attributed to the Corporation for the most recent three financial years.

**Corporation's Gross Reserves First Attributed by Year**

<b>Proved Undeveloped Reserves</b>	<b>Heavy Oil (Mbbbl)</b>		<b>Bitumen (Mbbbl)</b>		<b>Oil Equivalent (Mbbbl)</b>	
	<b>First Attributed</b>	<b>Total at Year-end</b>	<b>First Attributed</b>	<b>Total at Year-end</b>	<b>First Attributed</b>	<b>Total at Year-end</b>
Prior	-	-	-	-	-	-
2012	-	-	77,546	77,546	77,546	77,546
2013	-	-	-	79,080	-	79,080
2014	-	-	6,650	85,730	6,650	85,730
<b>Probable Undeveloped Reserves</b>	<b>Heavy Oil (Mbbbl)</b>		<b>Bitumen (Mbbbl)</b>		<b>Oil Equivalent (Mbbbl)</b>	
	<b>First Attributed</b>	<b>Total at Year-end</b>	<b>First Attributed</b>	<b>Total at Year-end</b>	<b>First Attributed</b>	<b>Total at Year-end</b>
Prior	-	-	-	-	-	-
2012	-	-	363,489	363,489	363,489	363,489
2013	-	-	-	364,490	-	364,490
2014	-	-	-	350,129	-	350,129

Undeveloped reserves are attributed by the Independent Evaluators in accordance with the standards and procedures contained in the COGE Handbook. Proved and probable undeveloped reserves have been assigned in accordance with engineering and geological practices as defined under NI 51-101.

The Corporation plans to develop its undeveloped reserves in connection with the first two phases of the West Ells SAGD operation within the next two years and plans to develop its undeveloped reserves in Thickwood and Legend as funding for development becomes available. A number of factors could result in delayed or cancelled development, including (i) changing economic conditions; (ii) changing technical conditions; (iii) availability and allocation of capital; (iv) surface access issues; and (v) the treatment of the Corporation under regulatory regimes.

The Corporation's future development plans for its proved and probable undeveloped reserves are described in the section of this AIF titled "*Description of the Business – Development of Our Assets*".

**Significant Factors or Uncertainties Affecting Reserves Data**

The process of evaluating reserves is inherently 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. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions, government restrictions and evaluation guidelines. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

For summaries and descriptions of the risk factors and uncertainties affecting the Corporation's reserves data, please see "*Risk Factors*".

### ***Future Development Costs***

Future development costs and capital requirements are presented in the following table for the proved and proved plus probable undeveloped reserves.

**Corporation's Annual Capital Expenditures  
Forecast Prices and Costs as of December 31, 2014  
(M\$)**

<u>Year</u>	<u>Total Proved</u>	<u>Total Proved Plus Probable</u>
2015	172,339	173,239
2016	78,120	274,521
2017	21,050	574,016
2018	42,005	366,628
2019	57,837	195,502
2020	48,726	140,021
2021	73,350	156,786
2022	73,323	177,554
2023	60,789	204,890
2024	58,718	128,678
2025	74,215	155,387
2026	73,959	284,387
Total For Remaining Years	1,035,467	7,753,511

The Corporation will require additional funding in the form of debt equity, joint venture arrangements and other structures to fund the development of our significant asset base. Once sufficient funding has been obtained, the Corporation intends to develop its projects in phases and expects that cash flows from the successfully developed early projects will help to finance later projects. Management believes that it is reasonable to assume the availability of external financing in the future, which financing could include one or more of: debt financing; asset dispositions; joint ventures; and equity financing. There can be no guarantee, however, that sufficient funds will be available or will be available on a timely basis, or that the Corporation will allocate funding to develop all of its reserves. Failure to develop its reserves would have a negative impact on the Corporation's net revenue. The interest or other costs of external financing are not included in future net revenue estimates and would reduce future net revenue depending upon the financing sources utilized.

## Other Oil and Gas Information

Information concerning the Corporation's important properties is set forth under the heading "*Description of the Business – Development of Our Assets*" in this AIF.

### *Oil and Gas Wells*

As at December 31, 2014, there were no wells producing conventional heavy oil at Muskwa. Renergy, as operator, suspended production operations in December 2014 based on project economics and future long term planning. As at December 31, 2014, the Corporation has a 50% working interest in 39 non-producing wells. The first thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015.

### *Properties with No Attributed Reserves*

The following tables summarize Sunshine's undeveloped land holdings (in acres) as at December 31, 2014.

Property	Unproved Properties		Net Acres Expiring Within One Year
	Gross	Net	
Goffer	23,040	23,040	0
Portage	186,240	186,240	0
Thickwood	9,968	9,968	0
West Ells	20,261	20,261	0
Legend	19,906	19,906	0
Opportunity	142,720	142,720	0
Harper	248,400	248,400	0
Saleski	8,000	8,000	0
East Long Lake	8,440	8,440	0
Crew Lake	14,080	14,080	0

#### Notes:

- (1) The above table includes all properties except Muskwa, Godin and South Thickwood.
- (2) The above table includes clastic and carbonate formations except as laid out below.
- (3) The above table excludes the regulatory approved sections for West Ells, Thickwood and Legend, which have been assigned reserves.

Property	Muskwa and Godin Carbonates		Net Acres Expiring Within One Year
	Gross	Net	
Muskwa	232,528	232,528	0
Godin	21,760	21,760	0

#### Notes:

- (1) This table includes interests in Muskwa and Godin carbonate formations only and the numbers it contains are not additive with the numbers in the Muskwa and Godin Clastics table below.

<b>Property</b>	<b>Muskwa and Godin Clastics</b>		<b>Net Acres Expiring Within One Year</b>
	<b>Gross</b>	<b>Net</b>	
Muskwa	232,528	116,264	0
Godin	21,760	10,880	0

**Notes:**

- (1) This table includes interests in Muskwa and Godin clastic formations only and the numbers it contains are not additive with the numbers in the Muskwa and Godin Carbonates table above.
- (2) Sunshine has a 50% working interest in Muskwa and Godwin clastic formations.

<b>Property</b>	<b>South Thickwood Oil Sands Below Top Viking to Base Woodbend Excluding Oil Sands in Wabiskaw</b>		<b>Net Acres Expiring Within One Year</b>
	<b>Gross</b>	<b>Net</b>	
South Thickwood	6,400	6,400	0

**Notes:**

- (1) This table includes all oil sands below top Viking to base Woodbend excluding oil sands in the Wabiskaw formation and the numbers it contains are not additive with the numbers in the South Thickwood Oil Sands in Wabiskaw table below.

<b>Property</b>	<b>South Thickwood Oil Sands in Wabiskaw</b>		<b>Net Acres Expiring Within One Year</b>
	<b>Gross</b>	<b>Net</b>	
South Thickwood	6,400	4,480	0

**Notes:**

- (1) This table includes interests in the Wabiskaw formation only and the numbers it contains are not additive with the numbers in the South Thickwood Oil Sands Below Top Viking to Base Woodbend Excluding Oil Sands in Wabiskaw table above.
- (2) Sunshine has a 50% working interest in the Wabiskaw formation in six sections of South Thickwood and a 100% interest in the Wabiskaw formation in four sections of South Thickwood.

For a description of significant factors or uncertainties relevant to properties with no attributed reserves, please see “*Significant Factors or Uncertainties Affecting Resources Data*” below.

**Abandonment and Reclamation Costs**

For the purposes of preparation of decommissioning liabilities on the Corporation’s December 31, 2014 consolidated financial statements, the Corporation estimated an undiscounted amount of \$83.3 million and calculated a present value of \$49.5 million using a discount rate of 1.00% to 2.22%. Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112.

The future asset retirement obligation is reviewed regularly by management based upon current regulations, costs, technologies and industry standards. The discounted obligation is recognized as a liability and is accreted against income until it is settled or the property is sold. Actual restoration expenditures are charged to the accumulated obligation as incurred.

In the GLJ Report, effective December 31, 2014, well abandonment costs for total proved plus probable reserves were estimated to be \$442 million, undiscounted, and \$44 million, discounted at 10%. These estimates are in respect of well costs only for wells or well pairs that have been assigned reserves, net of salvage value and do not include costs to abandon pipelines, facilities or wells or well pairs for which no reserves have been assigned, which the Corporation has included in determining its asset retirement obligation.

Of these costs, Sunshine expects to pay approximately nil in 2015, nil in 2016 and nil in 2017.



The following table summarizes the estimated annual abandonment costs (\$ thousands) as provided in the GLJ Report, which were deducted in the estimation of Sunshine's future net revenue:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Subtotal	Total remainder	Total	10% Discounted
Total Proved	-	-	-	-	-	-	3,153	3,216	3,281	627	2,560	3,917	16,754	64,938	81,692	16,668
Total Proved Plus Probable	-	-	-	-	-	-	9,460	-	4,921	-	-	18,278	32,658	409,756	442,414	44,485
Total Proved Plus Probable Plus Possible	-	-	-	-	-	-	8,277	1,206	2,460	2,510	-	9,792	24,245	470,616	494,861	51,143

### *Tax Horizon*

The Corporation had no assessable profit in Canada and did not pay any current income taxes for the year ended December 31, 2014. The Corporation files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Tax Act 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. The Corporation's wholly owned subsidiary, Sunshine Hong Kong, did not have any Hong Kong profits and did not pay any current income taxes for the year ended December 31, 2014. The Corporation had approximately \$1.1 billion of tax losses and other deductions available in Canada. The tax losses will begin expiring in 2028.

### *Costs Incurred*

The following table summarizes the capital investment made the Corporation on its properties for the year ended December 31, 2014:

	<b>Exploration &amp; Evaluation</b>
	<b>(M\$)</b>
Land and leasehold payments	988
Drilling and delineation	1,508
Geological and seismic	156
Equipment, tangibles and roads	137
Directly attributable capitalized general administration expenses	2,443
	<u>5,232</u>
	<b>Crude oil assets (West Ells)</b>
	<b>(M\$)</b>
Land and leasehold payments	208
Drilling and delineation <sup>(1)</sup>	(3,060)
Geological and seismic	4
Equipment, tangibles and roads	44,522
Directly attributable capitalized general administration expenses	4,817
	<u>46,491</u>
	<u>51,723</u>
Less: changes in non-cash working capital	94,424
Total capital expenditures	<u><b>146,147</b></u>

#### **Notes:**

(1) Included in Drilling and delineation is a change in prior year accrual classification.

### *Exploration and Development Activities*

The Corporation completed no exploratory and development wells during the year ended December 31, 2014.

Exploration Wells	-
Horizontal Wells	-
SAGD Wells	-
Observation Wells	-
Water Source/Disposal	-
Total Wells completed <sup>(1)</sup>	-

Sunshine's exploration and development activities have focused on achieving production at West Ells, with the majority of wells drilled in 2013 being located in, or drilled for support of, the initial phases of production. Some exploratory work occurred at Legend, but further exploratory or development drilling is not forecast outside of the West Ells project area in the near term.

### *Production Estimates*

Summary of the first year proved and proved plus probable reserves production estimates for 2015 are shown below.

#### **Summary of First Year Production and Oil Reserves for 2015**

<b>Reserves Category</b>	<b>Asset</b>	<b>Heavy Oil</b>		<b>Oil Equivalent</b>	
		<b>Gross</b> bbl/d	<b>Net</b> bbl/d	<b>Gross</b> bbl/d	<b>Net</b> bbl/d
<b>Proved</b>					
	West Ells	141	136	141	136
	Other Properties	-	-	-	-
Total Proved		<u>141</u>	<u>136</u>	<u>141</u>	<u>136</u>
<b>Probable</b>					
	West Ells	3	3	3	3
	Other Properties	-	-	-	-
Total Probable		<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
<b>Proved Plus Probable</b>					
	West Ells	144	139	144	139
	Other Properties	-	-	-	-
Total Proved Plus Probable		<u>144</u>	<u>139</u>	<u>144</u>	<u>139</u>

**Source:** GLJ Report.

Our Muskwa property began producing in September 2010. As at the date of this AIF, we have not recognised any revenue from this property. Once the Muskwa property has been determined to meet the appropriate criteria for technical feasibility and commercial viability, revenues from the production and sales of crude oil will be recognised. In 2014, production from the Corporation's Muskwa asset averaged 104 bbl/d (gross). In December 2014, Muskwa cold production wells were suspended based on project economics and future long term planning.

## The Corporation's Resources

In addition to reserves assessment, GLJ and D&M completed contingent resource assessments for the Corporation's clastic and carbonate reservoirs, which were prepared on March 2, 2015 and March 3, 2015, respectively, with an effective date of December 31, 2014. In addition to the reserves as assigned by GLJ, West Ells contains 640 MMbbls of best estimate contingent resources, Thickwood has been assigned 278 MMbbls of best estimate contingent resources and Legend has best estimate contingent resource recognition of 579 MMbbls. Sunshine's other clastic assets account for an additional best estimate contingent resource assignment of 1,007 MMbbls. The Corporation's carbonate best estimate contingent resource assignment at its Ells Leduc assets is 132 MMbbls. Other carbonate assets show an additional best estimate contingent resource potential of 715 MMbbls. In addition, Harper carbonates have been assigned 284 MMbbl of best estimate contingent resources. These volumes do not meet the 10% discount rate used by the independent evaluators and have been classified as "sub-economic" at this time. As such, volumes can be disclosed but not the economic values. "Sub-economic" resources may become economic at higher commodity prices.

It should not be assumed that the estimates of recovery, production and net revenue presented in the tables below represent the fair market value of the Corporation's bitumen resources. There is no assurance that the forecast prices and cost assumptions will be realized and variances could be material. The recovery and production estimates of the Corporation's bitumen resources provided herein are only estimates and there is no guarantee that the estimated resources will be recovered or produced. Actual resources may be greater than or less than the estimates provided herein. The contingencies which currently prevent the classification of the Contingent Resources disclosed in the tables below as reserves consist of: economic matters, further facility design and preparation of firm development plans, regulatory matters, including regulatory applications (including associated reservoir studies and delineation drilling), Corporation approvals and other factors such as legal, environmental and political matters or a lack of markets. There is no certainty that it will be commercially viable for the Corporation to produce any portion of the contingent resources on any of its properties.

The Corporation's total clastics best estimate contingent resources are estimated at 2,504 MMbbls. In addition the carbonate best estimate contingent resources are 846 MMbbls for a combined total of 3,350 million best estimate contingent resource bbls as presented in the table below.

The table below reflects the Corporation's contingent bitumen resources and associated discounted before tax future net revenues as of December 31, 2014, as evaluated by GLJ and D&M.

Property	Contingent Resources					
	Low Estimate		Best Estimate		High Estimate	
	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)
<b>Clastics</b>						
West Ells	322	657	640	1,484	960	2,693
Thickwood	-	-	278	529	459	1,665
Legend <sup>(1)</sup>	-	-	579	1,064	992	1,697
Other Clastics	681	851	1,007	1,796	1,677	3,004
<b>Total Clastics</b>	<b>1,003</b>	<b>1,508</b>	<b>2,504</b>	<b>4,873</b>	<b>4,088</b>	<b>9,059</b>
<b>Carbonates</b>						
Ells Leduc	-	-	132	171	285	783
Other Carbonates	463	597	715	1,596	3,522	5,199
Total Carbonates	463	597	846	1,767	3,807	5,982
<b>Combined Total<sup>(3)</sup></b>	<b>1,466</b>	<b>2,105</b>	<b>3,350</b>	<b>6,639</b>	<b>7,895</b>	<b>15,041</b>

### Notes:

- (1) Legend has been combined with the Opportunity property for the Greater Legend area.
- (2) The Harper Carbonate and Crow Lake properties have been evaluated as having 284 MMbbls and 14 MMbbls of recoverable best estimate resources, respectively. These volumes do not meet the 10% discount rate used by the independent evaluator and have been classified as "sub-economic" at this time. It is expected that, for the Harper Carbonates with a sustained WTI price of US\$101/bbl and for Crow Lake with a sustained WTI price of US\$105/bbl, these volumes may again become "economic" best estimate contingent resources.
- (3) The numbers in this table may not add exactly due to rounding.

The contingencies preventing classification of contingent resources as reserves fall into the categories of technical, such as the need for more evaluation drilling or the assumed use of technology under development, and non-technical, such as uneconomic development or lack of a regulatory submission. Portions of Sunshine's West Ells, Legend and Thickwood project resources are considered contingent due to the need for additional evaluation drilling, which is expected to occur as appropriate over the long term lives of these developments. Sunshine's additional clastics properties are considered contingent for the same reasons, with detailed planning, additional evaluation drilling, corporate approvals and regulatory submissions expected to occur as capital availability and market conditions allow. Sunshine's carbonate project resources are considered contingent because the possible methods to economically extract the resources are categorized as technology under development for the subject reservoirs. Also, the carbonate resources are considered contingent for non-technical reasons, including a need for corporate development plans, additional evaluation drilling and regulatory submissions. Sunshine is monitoring, and will selectively participate in, the development of technically acceptable recovery processes, some of which are currently underway, and expects to invest in detailed planning, additional evaluation drilling, corporate approvals and regulatory submissions as capital availability and market conditions allow.

### ***Significant Factors or Uncertainties Affecting Resources Data***

A significant portion of the Corporation's resource base is comprised of contingent resources, which are estimated to be potentially recoverable from known accumulations using established technology or technology under development, but not currently considered to be commercially recoverable due to one or more contingencies as listed above. None of the volumes or values of our resources have been risked for chance of development. We cannot assure you that it will be commercially viable to produce any portion of the contingent resources until contingencies are eliminated through detailed designs and regulatory submissions. Future net revenue is not a measure of financial or operating performance, nor is it intended to represent the current value of our reserves and resources.

The resources data and present value calculations presented in this AIF are estimates based on a number of assumptions which may deviate from the actual figures over time. For carbonates additional contingencies exist as the development is based on technology under development.

For further details, please refer to the "Risk Factors" section of this AIF, as there are risks associated with resource definitions and our carbonate resources may not be successfully developed.

## **RISK FACTORS**

An investment in the securities of the Corporation is subject to certain risks. These can be categorized into (i) risks relating to the business of Sunshine, (ii) risks relating to the oil sands industry; (iii) risks relating to Alberta and Canada; and (iv) risks relating to our Shares. Investors should carefully consider the various risk factors associated with the business and operations of the Corporation.

### **Risks Relating to Our Business**

#### ***The Corporation's operating performance, capital requirements and ability to raise capital cast doubt on its ability to continue to operate as a going concern***

The Corporation has no producing properties for which revenue has been attributed and no history of earnings, and there is no assurance that any of the Corporation's properties will commence production, generate earnings, operate profitably or provide a return on investment in the future.

While the Corporation's consolidated financial statements for the years ended December 31, 2014 and 2013 have been prepared on a going concern basis, which contemplates the Corporation's continued operation for the foreseeable future and the Corporation's ability to realize assets and discharge liabilities and commitments in the normal course of business, adverse events could cast significant doubt upon the validity of this assumption and hence the appropriateness of the use of accounting principles applicable to a going concern.

If the Corporation is unable to successfully finance its current and future properties and projects, it may not be able to realize its assets and discharge its liabilities in the normal course of operations and could eventually result in, among other things, the default of the Corporation under the Indenture.

As at December 31, 2014, the consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that Sunshine will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the year ended December 31, 2014, Sunshine reported a net loss of \$26.8 million. At December 31, 2014, Sunshine had positive working capital of \$138.2 million and an accumulated deficit of \$227.7 million. Sunshine's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to access additional financing. As such there is significant doubt and there can be no assurance Sunshine will be able to continue as a going concern.

On August 6, 2013, the Sunshine announced its Board of Directors had directed management to commence a strategic review process to identify, examine and consider a range of strategic alternatives available to Sunshine, with a view to progressing its oil sands development strategy and to preserving and maximizing shareholder value. Effective August 18, 2013, Sunshine suspended construction of its West Ells SAGD project, pending sourcing of additional financing. This process was terminated in August 2014 and the suspension was lifted and construction of the West Ells SAGD project recommenced.

The Corporation will require further financing in order to proceed with its development projects and its ongoing corporate and administrative activities. To address its financing requirements, it will continue to seek financing through further debt and equity financing transactions and joint venture agreements as well as potential asset sales, to the extent permitted by the Indenture. The Corporation is also working to identify a range of financing sources available to it, with a view to preserving and maximizing shareholder value. This could result in a private or public financing through the issuance of debt, equity or a combination of both, a sale of a material portion of the Corporation's assets, a merger, business combination or a corporate reorganization, among other alternatives. The Corporation's operating losses, negative operating cash flows and uncertainty regarding its ability to obtain financing in a timely manner raise doubt as to the Corporation's ability to continue as a going concern. If the going concern assumption is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Corporation's assets and liabilities. The consolidated financial statements do not include any adjustments that may result if the Corporation is unable to continue as a going concern, and, such adjustments could be material.

***If we experience further delays in the construction and development of phase one at our West Ells asset or incur unexpected costs, we may not have sufficient funds to complete construction and development of phase one at our West Ells asset.***

The Corporation anticipates achieving first oil at phase one of West Ells in the third quarter of 2015. The expected remaining cost to complete phase one construction and commissioning at West Ells as at December 31, 2014, is approximately \$116 million. The achievement of the foregoing first oil milestone may be impacted by significant delays as a result of material construction, development or other factors and the completion costs may be materially higher as a result of such delays or factors or due to unexpected costs or cost increases. If the Corporation experiences any such delays, material issues or increased costs, the Corporation's current funds alone may not be sufficient to fund the completion of phase one at our West Ells asset. In such a case, the Corporation would need to rely on additional equity or debt financing or other sources of capital to obtain the funds necessary for the completion of phase one at West Ells. There can be no assurance that additional financing will be available, or available under terms favorable to the Corporation. Failure to obtain such financing on a timely basis could cause the Corporation to suspend phase one construction and development at West Ells. The suspension of phase one construction and development at West Ells would materially and adversely affect the Corporation's financial condition and results of operations, and ability to make payments on any outstanding indebtedness, including the Notes.

***We may not be able to generate sufficient cash to service all of our indebtedness, including the Notes, and may be forced to take other actions to satisfy our obligations under such indebtedness, which may not be successful.***

Our ability to make scheduled payments on or refinance our debt obligations, including the Notes, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We have deposited into escrow funds

sufficient to pay the first 18 months of interest on the Notes. After that, we may be unable to generate a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the Notes. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The Indenture restricts our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations under the Notes.

If we cannot make scheduled payments on our debt, we will be in default and holders of the Notes could declare all outstanding principal and interest to be due and payable, causing a cross-acceleration or cross-default under our other debt agreements, if any, and we could be forced into bankruptcy, liquidation or restructuring proceedings. Sunshine was required to set aside US\$30 million of the proceeds from its Notes in escrow to fund the first three interest payments on the Notes.

#### ***Volatility in commodity prices***

The Corporation's results of operations and financial condition are dependent on the prevailing prices of crude oil and bitumen. Crude oil and bitumen prices have fluctuated widely in the recent past and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond Sunshine's control. Crude oil and bitumen prices are impacted by a number of factors including, but not limited to: the global supply of and demand for crude oil; global economic conditions; government regulation; political stability; the ability to transport crude to markets; the availability and prices of alternate fuel sources; and weather conditions. All of these factors are beyond Sunshine's control and can result in a high degree of price volatility.

Fluctuations in the price of commodities and associated price differentials may impact the value of Sunshine's assets, Sunshine's ability to maintain its business and to fund growth projects. Prolonged periods of commodity price depression and volatility may also negatively impact Sunshine's ability to meet all of its financial obligations as they come due. Any substantial and extended decline in the price of oil and bitumen would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, future revenues and profitability and may have a material adverse effect on the Corporation's business, financial condition, results of operations, prospects and the level of expenditures for the development of bitumen reserves, including delay or cancellation of existing or future drilling or development programs.

#### ***The development of current projects requires capital investment that may be difficult to raise or may be raised under unfavourable terms.***

The Corporation currently has limited capital and no cash flow from operations and therefore will require significant capital investment in order to carry out its planned development activities. There can be no assurance that additional financing will be available, or available under terms favorable to the Corporation. Failure to obtain such financing on a timely basis could cause the Corporation to have limited ability to expend the capital necessary to continue development of the West Ells project and beyond. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. Financing by issuing additional securities of the Corporation may result in a change of control of the Corporation dilution to the Corporation's current holders of Common Shares, or both.

***Projects currently in development may not be completed within expected time frames, within budget, or at all.***

Even if we obtain sufficient funding for our current projects, they are currently in early development stages. The advancement and completion of our projects or the commencement of production and commercial sales from our projects could be delayed or experience interruptions or increased costs or may not be completed at all due to a number of factors, including:

- inability to raise capital;
- delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals;
- disruption in the supply of energy and diluent;
- non-performance by third party contractors;
- inability to attract sufficient numbers of qualified workers;
- labour disputes or disruptions or declines in labour productivity;
- unfavourable weather conditions restricting access to project sites or resulting in road bans that restrict or prohibit road usage;
- contractor or operator errors;
- design errors;
- availability of infrastructure and pipeline capacity;
- increases in materials or labour costs;
- catastrophic events such as fires, storms or explosions;
- the breakdown or failure of equipment or processes;
- construction, procurement and/or performance falling below expected levels of output or efficiency;
- changes in project scope;
- violation of permit requirements;
- the pace of progress with respect to developing extraction technologies; and
- the existence of environmental sensitivities such as endangered species or other at-risk or threatened wildlife within the project area.

Given the stage of development of our projects, various changes to the applicable designs and concepts may be made prior to their completion, which could increase costs or delay project completion. We intend to grow our business in stages, and the potential production capacity targets for our clastics and conventional heavy oil are approximately 300,000 bbl/d by 2024. We plan to develop our three primary clastics areas initially, and eventually, as the recovery technologies continue to evolve, our carbonate assets. However, we cannot assure you that our growth will proceed in the stages we expect due to the factors mentioned above or others that we are not able to foresee.

Historically, some oil sands projects have experienced capital cost increases and overruns due to a variety of factors. While we have a schedule for developing our projects, including obtaining regulatory approvals and commencing and completing the construction of our projects, we cannot assure you that our expected timetables will be met without delays, or at all. Any delays may increase the costs of our projects, requiring additional capital, and we cannot assure you that such capital will be available in a timely and cost-effective fashion.

***The development of projects requires significant and continuous capital investment that may be difficult to raise or may be raised under unfavourable terms.***

In general, the development of oil sands projects requires a significant amount of capital investment that occurs over several years before commencing commercial operations. As a result, our projected capital expenditures required for continuing development of commercial operations of the West Ells project and beyond are significantly greater than currently available working capital. We currently do not have the capital or committed financing necessary to complete all of our planned future

development phases and therefore will need to rely on additional equity or debt financing or other sources of capital to obtain the funds necessary for our future development activities. Capital and operating cost inflation risks subject us to potential erosion of profitability. In addition, any construction or development delays at the projects could increase the capital expenditure required to develop the projects. If we face difficulty in raising sufficient capital or raise capital under unfavourable terms in order to meet our working capital requirements, our business, results of operations, financial position and growth prospects could be materially and adversely affected.

***Restrictive covenants in the Indenture and agreements governing future indebtedness may restrict our ability to pursue our business strategies.***

The Indenture contains covenants that limit our ability and the ability of our restricted subsidiary to, among other things:

- transfer or sell assets including capital stock of restricted subsidiaries or use asset sale proceeds;
- pay dividends or make distributions, redeem subordinated debt or make other restricted payments;
- make loans and certain investments;
- incur or guarantee additional debt or issue preferred equity securities and certain disqualified stock;
- create or incur certain liens on our assets;
- incur dividend or other payment restrictions affecting our restricted subsidiaries;
- merge, amalgamate, consolidate, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates;
- until we reach certain production levels, make capital expenditures or investments except for capital expenditures or investments in our West Ells asset;
- establish or permit to exist, or permit any of our restricted subsidiaries to establish or permit to exist, any ‘defined benefit plan’; and
- designate any of our subsidiaries as unrestricted subsidiaries.

The restrictions contained in the Indenture and instruments governing any future indebtedness could also limit our ability to plan for or react to market conditions, meet capital needs or make acquisitions or otherwise restrict our activities or business plans.

***The level of profitability expected may not be achieved.***

The profitability of oil sands operations is dependent upon many factors beyond our control. As with any oil sands projects, we cannot assure you that bitumen will be produced pursuant to our Oil Sands Leases. In addition, the marketability of the bitumen produced from our projects will be affected by numerous factors beyond our control. These factors include fluctuations in market prices, the proximity, cost and capacity of pipelines and upgrading and processing facilities, the development and condition of infrastructure necessary to carry out our operations, equipment availability and government regulations (including regulations relating to prices, taxes, royalties, land tenure, allowable production, importing and exporting of oil and gas and environmental protection). These factors could materially affect our financial performance and result in our not receiving an adequate return on invested capital.

In the event that our projects are developed and become operational, we cannot assure you that these projects will produce or transport bitumen or bitumen blends in quantities or at the costs anticipated, or that they will not cease production entirely in certain circumstances. Reservoir quality or equipment failures and design flaws could increase the costs of extracting bitumen at our projects. The costs of producing and transporting bitumen blends from oil sands may increase so as to render recovery of bitumen resources from our projects uneconomical. We cannot assure you that an adequate supply of natural gas and electricity will be available as fuel sources to support production operations at prices which would make our projects economically feasible.



Our estimates of operating costs have been based on current estimations for our projects. Actual operating costs may differ materially from such current estimates. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws and regulations and enforcement policies could result in substantial costs and liabilities, delays or an inability to complete our projects or the abandonment of our projects.

***Our operations depend on infrastructure owned and operated by third parties and on services provided by third parties.***

We depend on certain infrastructure owned and operated or to be constructed by others and on services provided by third parties, including, without limitation, processing facilities, pipelines or rail lines for the transportation of products to the market, natural gas, supply, diluents supply, disposal facilities, electrical grid transmission lines for the provision and/or sale of electricity to us, engineering, equipment procurement and construction contracts, maintenance contracts for key equipment, and contracts for various other services. The failure of any or all of these third parties to supply goods and, services, or, in connection with our SAGD projects, to construct necessary infrastructure on a timely basis and on acceptable commercial terms will negatively impact our operations and financial results.

We initially plan on trucking diluent to, and dilbit from, our SAGD projects in the short term and are also investigating rail and pipeline alternatives. The ability to deliver diluent to our SAGD projects and ship dilbit to markets is dependent on, among other things, access to trucks and drivers, absence of unforeseen obstacles and accidents, weather and general road conditions. Delays or the inability to deliver diluent to our SAGD projects or ship dilbit to market could have a negative impact on our business, results of operations, financial position, growth prospects and cash flow.

***Strategic alliances, partnerships and joint venture arrangements could present unforeseen integration obstacles or costs and may not enhance the business.***

We may pursue potential strategic alliances and partnerships in the areas of infrastructure development for our clastic assets, as well as the development and application of new technologies to our carbonate resources and pursue joint venture arrangements with other oil and gas companies to develop our core areas. These arrangements involve a number of risks and present financial, managerial and operational challenges. We may not be able to realise any anticipated benefits or achieve the synergies we expect from these arrangements and we may be exposed to additional liabilities of any acquired business or joint venture. Any of these could materially and adversely affect our revenue and results of operations. In addition, future acquisitions or joint ventures may involve the issuance of additional Shares of the Corporation, which may dilute Shareholders' interests.

***Attracting, retaining and training key personnel is required.***

We rely on certain key members of our senior management team and employees who have experience in the oil sands industry to manage our business and growth. The loss or departure of any of our key officers, employees or consultants could negatively impact our business, results of operations, financial position and growth prospects.

Our projects will require experienced employees with particular areas of expertise. The number of persons skilled in the development and operation of oil sands projects may be limited. We cannot assure you that all of the required employees with the necessary expertise will be available. There are other oil sands projects in Alberta that are planned for completion on timetables similar to those of our projects. Should those other projects or expansions proceed in the same timeframe as our projects, we may need to compete for experienced employees and such competition may result in retention of an insufficient number of skilled employees and increases to compensation paid to such employees.

In addition, our ability to recruit and train operating and maintenance personnel is a key factor for the success of our business activities. Actual staffing needs may exceed our current projections. If we are not successful in recruiting, training and retaining the personnel we require in sufficient numbers, our business, results of operations, financial position and growth prospects could be materially and adversely affected.

***Carbonate resources may not be successfully developed.***

We intend to apply current and future technologies for development of our carbonate resources, predominantly at our Harper, Muskwa and Portage project areas. The successful development of our carbonate reservoirs depends on, among other things, the successful development and application of SAGD and CSS or other recovery processes to carbonate reservoirs. Although the technology has been developed for application to non-carbonate reservoirs, there are no known successful commercial projects that use SAGD or CSS to recover bitumen from carbonate formations and there exists a large range in the expected recoverable volumes, the lower end of which may not be economically viable. The principal risks associated with SAGD and CSS recovery in carbonate reservoirs are (i) the possibility of unexpected steam channelling which would increase steam requirements resulting in increased costs and potentially reduced economically recoverable bitumen volumes; (ii) potential mechanical operating problems due to production of fine sedimentary particles which could cause wellbore plugging and reduced bitumen production rates and potential interruption of surface production operations; and (iii) the ability to drain the bitumen and to scale results from tests and pilots to commercial scale.

Development of carbonate reservoirs will involve significant financial and time investment and project payout is not assured. Our ability to develop our bitumen resources that are located in carbonate reservoirs on a commercially viable scale is contingent upon one or more of the following events occurring:

- using existing SAGD or CSS technology to successfully exploit carbonate reservoirs;
- adapting existing SAGD or CSS technology such that it can be successfully used to exploit carbonate reservoirs; or
- developing or acquiring new technology that can be used to successfully exploit carbonate reservoirs.

We cannot assure you that any of these events will occur. The development of such recovery processes will involve significant capital expenditures and a significant lag time between capital expenditures and the commencement of commercial sales. If a pilot project and/or the technology under development does not demonstrate potential commerciality in carbonate reservoirs then our projects on these assets may not proceed and this may occur only after significant expenditures have been incurred. Regardless, evaluators may re-evaluate these resources due to changes or reinterpretations based on the COGE Handbook and processes for assessing uncertainty and risk.

***There could be claims related to infringement of oil and gas development rights and litigation in the ordinary course of business.***

We are subject to the risk that a third party could claim that we have infringed such third party's oil and gas development rights. In addition, we could be involved in litigation in the ordinary course of business. Any claim, whether with or without merit, could be time-consuming to evaluate, result in costly litigation and cause delays in our operations, which could divert management's attention and financial resources from our normal operations.

It is possible for the Crown to grant different mineral rights over a given parcel of land in separate geological horizons. It is not uncommon for different parties to have different rights to specific geological horizons granted on different dates. As a result, different rights of different parties on the same parcel of land can result in conflicts due to their competing interests. Where this occurs, the parties may work together to negotiate a compromise that maximises recovery for all parties involved. Where such a compromise is unattainable, the authority of one of a number of administrative bodies, such as the AER or the Surface Rights Board, will be determinative while the ultimate result will be affected by the nature and particular characteristics of the conflict. The ultimate result of such conflicts cannot therefore be predicted accurately in advance and could include the temporary suspension of our ability to explore, develop and exploit our mineral rights.

***Hedging arrangements are subject to risks.***

The nature of our operations will result in exposure to fluctuations in currency and commodity prices. We may use financial instruments and physical delivery contracts to hedge our exposure to these risks. To the extent that we engage in hedging activities, we will be exposed to credit related losses in the event of non-performance by counterparties to the physical or financial instruments. Additionally, if product prices increase above those levels specified in any future commodity hedging agreements we enter into, we would lose the full benefit of commodity price increases. If we enter into hedging

arrangements, we may suffer financial losses if we are unable to commence operations on schedule or are unable to produce sufficient quantities of oil to fulfil our obligations. We may also hedge our exposure to the costs of inputs to our projects such as natural gas. If the prices of these inputs fall below the levels specified in any future hedging agreements, we would lose the full benefit of commodity price decreases.

***Management's estimates and assumptions could be inaccurate.***

In preparing consolidated financial statements in conformity with IFRS, estimates and assumptions are used by management in determining the reported amounts of assets and liabilities, revenues and expenses recognized during the periods presented and disclosures of contingent assets and liabilities known to exist as of the date of such financial statements. These estimates and assumptions must be made because certain information that is used in the preparation of such financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available, or is not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and our management must exercise significant judgment. Estimates may be used in management's assessment of items such as fair values, income taxes, stock based compensation and asset retirement obligations. Actual results for all estimates could differ materially from the estimates and assumptions used by the Corporation, which could have a material adverse effect on the Corporation's business, results of operations, financial position and growth prospects.

***We have no current customers. An inability to generate a sufficient number of customers could have a material adverse effect on our business, financial condition, results of operations and ability to make payment on any outstanding indebtedness.***

We are finalizing construction of phase one of our West Ells asset and we expect to achieve first steam by the end of June 2015 and first oil in the third quarter of 2015. We are targeting to produce 5,000 bbl/d by the end of 2016. Once production begins, we will need to generate customers to purchase the bitumen. An inability to generate a sufficient customer base could have a material adverse effect on our business, financial condition and results of operations and ability to make payment on any outstanding indebtedness, including the Notes.

***There are potential conflicts of interest to which some of the directors and officers of the Corporation will be subject in connection with our operations.***

Some of the directors and officers of the Corporation are engaged and will continue to be engaged in the search of oil and gas interests on their own behalf and on behalf of other companies and situations may arise where the directors and officers will be in direct competition with us. From time to time, the Corporation may jointly participate in exploration and development activities with one or more companies with which a director or officer of ours may be involved. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the ABCA which require a director or officer of a company who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with us to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. However, we cannot assure you that such director or officer will comply with the requirements of the ABCA and any undisclosed conflict of interest might have an adverse effect on the Corporation's operations.

**Risks Relating to the Alberta Oil Sands Industry**

***Revenue and results of operations are sensitive to changes in oil prices and general economic conditions.***

Our revenue and results of operations are sensitive to movements in the market prices for crude oil and general economic conditions. The prices that we receive for our conventional heavy oil bitumen and bitumen blend will depend on crude oil prices. Crude oil prices have historically been subject to large fluctuations due to changes in the supply of, and demand for, oil (and the market perception thereof), which in turn are affected by factors beyond our control. These factors include, among other things, the condition of the Canadian, United States and global economies, actions taken by the Organisation of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in oil producing nations and elsewhere and war or the threat of war in oil producing regions. Adverse changes in general economic and market conditions could also

negatively impact demand for crude oil, bitumen and bitumen blend, revenue, operating costs, results of financing efforts, fluctuations in interest rates, market competition, labour market supplies, timing and extent of capital expenditures or credit risk and counterparty risk.

Any significant reduction in oil prices would lower our selling prices, which could have a material and adverse effect on our revenue and profitability. In addition, a significant reduction in oil prices could render uneconomic the recovery and sale of our bitumen resources. We cannot assure you that oil prices will remain at commercially acceptable levels for oil sands developers in the future. Further, we cannot anticipate the effects of the recent sharp decline in crude oil prices due to rising supplies of crude oil combined with weak demand growth, and the general growing uncertainty surrounding the energy industry as a whole. The longer crude oil prices remain at or below current levels, the greater the probability of a material and adverse effect on our revenue, profitability and growth prospects. At current oil prices, it is still possible for oil sands developers to remain at commercially acceptable levels.

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels, have caused significant volatility in commodity prices. These events and conditions have caused a decrease in confidence in the broader United States and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and are likely to continue to impact the performance of the global economy going forward. Worldwide crude oil commodity prices are expected to remain volatile in the near future as a result of global excess supply, recent actions taken by OPEC, and ongoing global credit and liquidity concerns. This volatility may affect the Corporation's ability to obtain equity or debt financing on acceptable terms.

In addition, the market prices for conventional heavy oil and bitumen blends are lower than the established market indices for light and medium grades of oil, due principally to diluent prices and the higher transportation and refining costs associated with conventional heavy oil and bitumen blends. Future price differentials between heavier and lighter grades of crude oil are subject to uncertainty and any increase in the price differentials could have an adverse effect on our business, results of operations, financial position and growth prospects.

We conduct an assessment of the carrying value of our assets to the extent required by IFRS. If crude oil prices decline, the carrying value of our assets could be subject to downward revision, and our earnings could be adversely affected.

In the future, we may enter into hedging arrangements in order to reduce the impact of crude oil price fluctuations. For a discussion of the risks associated with those arrangements please refer to the section titled "*Risks Relating to Our Business - Hedging Arrangements Are Subject to Risks*" above.

***The Canadian oil sands industry could experience disruptions due to unfavourable or seasonal weather conditions.***

The level of activity in the Canadian oil sands industry is influenced by seasonal weather patterns and could be affected by unfavourable weather conditions. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil producing and exploration areas (including many of the areas in which we operate) are located in regions that are inaccessible other than during the winter months because the ground surrounding the sites consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in development and production activities.

***Bitumen in-situ recovery processes are subject to uncertainties.***

The recovery of bitumen using *in-situ* processes such as SAGD or CSS is subject to uncertainty. Although several companies have utilized these processes to recover bitumen, we cannot assure you that our projects will achieve the same or similar results, or that any of our projects will produce bitumen at expected levels, on schedule or at all.

The quality and performance of the reservoir can also impact the timing, cost and levels of production using this technology. *In-situ* exploration and production operations are also subject to risks such as encountering unexpected formations or pressures and invasion of water into producing formations. With additional data and knowledge of a reservoir, we may realise that the reservoir does not show the same level of porosity and permeability as shown from the previous data set. Moreover, the actual production performance, including recovery rate and SOR, may not meet what has been predicted. In that case, the production plan may be changed or adjusted significantly.

The performance of SAGD or CSS facilities may differ from our expectations. The variances from expectations may include, without limitation:

- the ability to operate at the expected level of production;
- the reliability or availability of the SAGD and CSS facilities; and
- the amount of steam required to produce bitumen resources.

If the SAGD or CSS facilities do not perform to our expectations or as required by regulatory approvals, we may be required to invest additional capital to correct deficiencies or we may not be able to meet our expected level of production. If these expectations are not met, our revenue, cash flow, reserves and resource evaluations, and relationships with customers could be materially and adversely affected.

***Our profitability could be materially and adversely affected by increases in natural gas prices.***

Our profitability could be materially and adversely affected by increases in natural gas prices. We utilize natural gas to produce steam and natural gas condensate as a diluent to reduce the viscosity of our bitumen resources. Natural gas prices have been subject to significant fluctuations due to changes in supply and demand. Factors which affect natural gas prices include, among other things, weather conditions in the United States and Canada, pipeline capacity and oil prices. We currently do not plan to enter into long term contracts for the purchase of natural gas or hedging arrangements related to movements in natural gas prices. If natural gas prices increase, our profitability could be materially and adversely affected.

***Public perception of Canada's oil sands may have an impact on our operations and business.***

Development of Canada's oil sands has received significant attention in political, media and activist commentary on the subject of pipeline transportation, climate change, GHG emissions, water usage, harm to aboriginal communities and environmental damages. Public concerns regarding such issues may directly or indirectly have a negative impact on our profitability by: (i) creating significant regulatory uncertainty that could challenge the economic modeling of future projects and potentially delay sanctioning; (ii) resulting in additional environmental and emissions regulation by governmental authorities, which could result in changes to our operating requirements, thereby potentially increasing the cost of operation and reclamation and abandonment; (iii) resulting in legislation or policy that limits the purchase of crude oil produced from Canada's oil sands by governments or other consumers, which in turn, may limit the market for our dilbit and reduce its price; and (iv) resulting in proposed pipelines not being able to receive the necessary permits and approvals, which, in turn may limit the market for our dilbit and reduce its price.

***Drilling and other equipment for exploration and development activities may not be available when needed.***

Oil exploration and development activities depend on the availability of drilling and related equipment in the areas where such activities will be conducted. If the demand for this equipment exceeds the supply at any given time, or if the equipment is subject to access restrictions, our exploration and development activities could be delayed. We cannot assure you that sufficient drilling and other necessary equipment will be available as needed by us. Shortages could delay our proposed exploration, development and sales activities, and could have a material adverse effect on the business, results of our operations, financial position and growth prospects.

***Access to diluent supplies at favourable prices may be limited.***

Bitumen is characterised by low API gravity or weight and high viscosity or resistance to flow. We plan on using condensate as a diluent to facilitate the processing and transportation of bitumen. A shortfall in the supply of diluent may cause its cost to increase or require alternative diluent supplies to be purchased, thereby increasing the cost to transport bitumen to market and correspondingly increasing our operating cost and adversely impacting our overall profitability.

***A lack of, or impediment to constructing, sufficient pipeline, shipping or refining capacity could adversely affect our business, results of operations, financial position and growth prospects.***

The primary market for Canadian-sourced oil has traditionally been the United States. Through proposed pipelines and shipping terminals, Canadian-sourced oil from Alberta could be transported to Asian markets when destination terminals are constructed along the west coast of Canada and when transportation proposals connecting the Athabasca region to west coast terminals are implemented. Currently there are a number of planned projects which could potentially increase the pipeline, shipping and refining capacity for bitumen and conventional heavy oil sourced from Alberta. However, we cannot assure you that these projects will increase pipeline, shipping or refining capacity at a rate which would be sufficient to match the demand for such capacity. If there is a shortage of pipeline, shipping and refining capacity for heavy conventional oil and bitumen, our business, results of operations, financial position and growth prospects could be materially and adversely affected.

Major infrastructure projects such as trans-continental pipelines to transport oil from Alberta to the United States require regulatory and government approvals from both the Canadian and US governments. If proposed pipeline construction projects are rejected by either government or if there are other technical or regulatory obstacles associated with the construction of the pipelines, new pipelines may not be constructed and our ability to transport oil using such pipelines would be negatively impacted. Similarly, any rejection by governments or regulatory bodies of proposals to build new shipping and refining capacity for heavy conventional oil and bitumen may also materially and adversely affect our business, results of operations, financial position and growth prospects.

***Oil sands exploration and development is subject to operational risks and hazards.***

The operation of our projects is subject to risks and hazards relating to recovering, transporting and processing hydrocarbons, such as fires, explosions, gas leaks, migration of harmful substances, blowouts and spills. The occurrence of any of these incidents might result in the loss of equipment or life, as well as injury or property damage. Our projects could be interrupted by natural disasters or other events beyond our control. Losses and liabilities arising from uninsured or under-insured events could have a material adverse effect on our projects and on our business, results of operations, financial position and growth prospects.

Our projects are expected to process large volumes of hydrocarbons at high pressure and at high temperatures in equipment with defined tolerances which will handle large volumes of high pressure steam. Equipment failures could result in damage to our facilities and liability to third parties against which we may not be able to fully insure or may elect not to insure due to high premium costs or for other reasons.

We expect that we will initially use trucks to bring our bitumen to the market. Normal hazards associated with trucking include collisions between vehicles and wildlife. We may also use rail or pipelines to transport dilbit to the market and diluent to our projects. Normal hazards associated with transportation by rail include collisions with vehicles and wildlife and rail line breaks. Normal hazards associated with transportation by pipeline include leakage and other potential environmental issues. These hazards could potentially disrupt the transportation of our products and materials and could materially and adversely affect our business, results of operations, financial position and growth prospects.

***There are risks associated with reserves and resources definitions.***

We have disclosed estimated volumes and values of our contingent resources in this AIF. None of the volumes or values of our resources have been risked for chance of development. Actual recovery may be substantially less.

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, established recovery technology or technology under development, corporate commitment, and/or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent resources are further classified in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by their economic status. There is a greater degree of risk associated with developing the carbonates in view of the distinction that established recovery technologies are methods proven to be successful in commercial applications, whilst technology under development is technology developed and verified by testing as feasible for future commercial application to the subject reservoir.

- The range of uncertainty of estimated recoverable volumes may be represented by either deterministic scenarios or by a probability distribution. Reserves are disclosed under proved, proved plus probable and proved plus probable plus possible categories. Resources are provided as low, best, and high estimates and are not classified as commercially recoverable reserves due to one or more contingencies.
- Proved reserves/low estimate contingent resources: This is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the proved reserves/low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the proved reserves/low estimate contingent resources.
- Proved plus probable plus possible/high estimate: This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the proved plus probable plus possible reserves/high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the proved plus probable plus possible reserves/high estimate contingent resources.

We cannot assure you that it will be commercially viable to produce any portion of the contingent resources. The reserves and resources data and present value calculations presented in this AIF are estimates based on a number of assumptions which may deviate from the actual figures over time.

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, quantities of contingent resources and future net revenues to be derived therefrom, including many factors beyond our control. The reserves, contingent resources and estimated financial information with respect to certain of our Oil Sands Leases have been independently evaluated by GLJ and D&M. These evaluations include a number of factors and assumptions made as of the date on which the evaluation is made such as geological and engineering estimates which have inherent uncertainties, initial production rates, production decline rates, ultimate recovery of reserves and contingent resources, timing and amount of capital expenditures, marketability of production, current and estimate prices of blended bitumen, crude oil and natural gas, our ability to transport our product to various markets, operating costs, abandonment and salvage values, the effects of regulation by governmental agencies and royalties and other government levies that may be imposed over the productive life of the reserves and contingent resources. Reserves and contingent resources estimates may require revision based on actual production experience. Actual production and cash flow derived from our Oil Sands Leases may vary from GLJ and D&M's estimates on both, and such variations may be material and adverse.

We use PV10% to estimate the present value of future net revenues from our operations. Pre-tax PV10% is the estimated present value of our future net revenues generated from our proved reserves and contingent resources before taxes, discounted using an annual discount rate of 10%. Post-tax PV10% is the same calculation on an after tax basis. PV10% is not a measure of financial or operating performance, nor is it intended to represent the current market value of our estimated oil sands reserves and resources. Estimates with respect to reserves and contingent resources that may be developed and produced in the future are often based on volumetric calculations, probabilistic methods and analogy to similar types of reserves and resources, rather than upon actual production history, and are therefore generally less reliable. Subsequent evaluations of the same reserves or resources based on production history may result in material variations from current estimated reserves and

contingent resources. Furthermore, estimates with respect to future revenue to be derived from proved reserves and contingent resources are inherently uncertain as they are often determined based on assumed oil prices and our operating costs and may be further impacted by assumptions we make in respect of a number of factors, such as market demand for oil, interest rate and inflation rate, all of which are not within our control. While we believe that the presentation of PV10% estimates provides useful information to investors in evaluating and comparing the relative size and value of our reserves and contingent resources, calculations of our future net revenues using PV10% are inherently uncertain as a result of the reasons outlined above and therefore should not be unduly relied on. Furthermore, both GLJ and D&M have used a range of other discount rates to calculate present value of future net revenues which would produce different results from the use of PV10%. We make no representation that 10% is the correct or best discount rate to use and PV10% estimates are presented in this AIF for reference only.

Only positive PV10% values and the associated resource barrels are reported in this AIF for each asset and classification category. In some scenarios, the low case estimate indicates a 0 value indicating that there are uneconomic results (negative PV10%) and the Corporation would not proceed with development. This is consistent with reporting in the Corporation's independent resource reports and COGE Handbook guidelines that specify that contingent resources must be economic under current pricing.

***Reservoir characteristics may vary from analogues.***

The reservoir characteristics of our properties vary among the different properties and in comparison to other producing projects in the McMurray or other formations. The reservoir we are proposing to produce has had little thermally stimulated production to date, although there are several commercial projects announced or in early stage of development. There is no guarantee that our steam oil ratio will be equivalent to those ratios in the McMurray or other formations which are currently producing. There is a risk that the recovery of bitumen will be lower in our projects than in projects in other reservoirs that have been used as analogues to produce the contingent resources in our technical report, because the reservoir characteristics are different although management believes that these differences have been taken into account.

***Future delineation programmes may not be successful in adding to reserves and resources.***

As part of our growth strategy, we intend to further delineate reserves and resources on our existing Oil Sands Leases land base. We cannot assure you that our delineation programmes will be successful in adding to our reserves and resources. If these programmes are not successful, our growth prospects could be materially and adversely affected.

***The oil sands and oil industry in general are highly competitive.***

The Canadian oil sands industry and international oil industry are highly competitive. Oil producers compete with each other in a number of areas, including in attracting and retaining experienced and skilled management personnel and oil and gas professionals, the procurement of equipment for the extraction of bitumen, access to capital markets, the exploration for, and the development of, new sources of supply, the acquisition of oil interests, the distribution and marketing of petroleum products, and the obtainability of sufficient pipeline and other means of transportation. Our business will compete with producers of bitumen, bitumen blends, synthetic crude oil and conventional crude oil. Some of these competitors may have lower costs and greater financial and other resources than us. A number of these competitors have significantly longer operating histories and have more widely recognised brand names, which could give such competitors advantages in attracting customers and employees. The expansion of existing operations and development of new projects by other companies could materially increase the supply of competing crude oil products in the marketplace. Depending on the levels of future demand, increased supplies could have a negative impact on prices for bitumen blend, which in turn could negatively affect our selling prices.

***Ownership of Oil Sands Leases and PNG Licences are subject to federal, provincial and local laws and regulations and Oil Sands Leases may be unable to be renewed.***

The *Mines and Minerals Act* (Alberta) regulates those natural persons and corporate entities eligible to own Oil Sands Leases or PNG Licences and limits ownership to a number of different types of locally registered corporate entities, including



corporations registered under the *Companies Act* or corporations registered, incorporated or continued under the ABCA. Accordingly, overseas companies or entities may not directly own Oil Sands Leases or PNG Licences in Alberta. They may only do so indirectly through whole or part ownership of a Canadian registered or incorporated company.

The ICA also generally prohibits a reviewable investment to be made by an entity that is a “non-Canadian”, unless after review, the minister responsible for the ICA is satisfied that the investment is likely to be of net benefit to Canada.

An investment in the Shares by a non-Canadian who is not a “WTO investor” (which includes governments of, or individuals who are nationals of, member states of the World Trade Organisation (including Canada) and corporations and other entities which are controlled by them), at a time when Sunshine was not already controlled by a WTO investor, would be subject to a net benefit review under the ICA in two circumstances. First, if it was an investment to acquire control (within the meaning of the ICA, and as described below) and the value of the Corporation’s assets, as determined under ICA regulations, was \$5 million or more. Second, the investment would also be reviewable if an order for review was made by the federal cabinet of the Canadian government on the grounds that the investment related to Canada’s cultural heritage or national identity (as prescribed under the ICA), regardless of asset value.

An investment in our Shares by a WTO investor (or by a non-Canadian who is not a WTO investor at a time when the Corporation was already controlled by a WTO investor) would only be reviewable under the ICA if it was an investment to acquire control and the value of the Corporation’s assets, as determined under ICA regulations, was not less than a specified amount, which for 2015 is \$369 million.

In addition to the foregoing circumstances, an investment would also be reviewable if an order for review is made by the federal cabinet of the Canadian government on the grounds that an investment by a non-Canadian could be injurious to national security.

As a result of legislative amendments not yet in force, the usual thresholds for review for direct acquisitions of Canadian businesses (other than acquisitions of cultural businesses) by foreign investors may change as of a date to be determined by the federal cabinet of the Canadian Government. In January of 2015, new regulations under the ICA came into force, increasing the \$354 million threshold to \$369 million for WTO investors.

The ICA provides detailed rules to determine if there has been an acquisition of control. For example, a non-Canadian would acquire control of the Corporation for the purposes of the ICA if the non-Canadian acquired a majority of the Shares. The acquisition of less than a majority, but one-third or more, of the Shares would be presumed to be an acquisition of control of Sunshine unless it could be established that, upon such acquisition, Sunshine would not in fact be controlled by the acquirer. An acquisition of control for the purposes of the ICA could also occur as a result of the acquisition by a non-Canadian of all or substantially all of the Corporation’s assets.

Further, the *Competition Act* provides that certain substantial transactions among significant parties may not be consummated unless a pre-merger notification thereof is made to the Commissioner and a stipulated waiting period expires. Where the Commissioner believes that a proposed transaction does not give rise to competition concerns, he may issue an Advance Ruling Certificate (an “**ARC**”) that exempts the parties from the notification requirement and precludes the Commissioner from challenging the transaction in the future.

There are two thresholds that must be met in order for a transaction to be notifiable. The first threshold is the current \$86 million “size of transaction” threshold. If the book value of the assets in Canada of Sunshine or the revenues generated from sales in or from Canada by Sunshine and its affiliates exceed \$86 million, the second \$400 million “size of the parties” threshold must also be considered. Assuming the first threshold is exceeded, if the book value of the assets in Canada or the revenues generated in, from and into Canada of the purchaser and its affiliates and Sunshine and its affiliates exceeds \$400 million, notification is required.

If a person (or affiliated group of persons) acquires more than 20% of the total issued and outstanding Shares and the above mentioned thresholds are exceeded, *Competition Act* approval may be required.

If a transaction is subject to notification, the parties thereto are required to file prescribed information in respect of themselves, their affiliates and the proposed transaction and pay a prescribed filing fee. The parties may also apply for an ARC or a “no action letter” which may be issued by the Commissioner in respect of a proposed transaction if she is satisfied that there are not sufficient grounds on which to apply to the Competition Tribunal for an order challenging the transaction at that time. As the Commissioner retains the right to challenge a transaction for up to three years after closing, the parties usually agree not to close until the Commissioner has completed her review and has issued either a no-action letter or an ARC. The Commissioner would likely only challenge a proposed transaction if the transaction prevents or lessens, or is likely to prevent or lessen, competition substantially in the market affected.

Oil produced from Oil Sands Leases in Alberta is produced pursuant to two types of oil sands agreements issued under the *Oil Sands Tenure Regulation* made under the *Mines and Minerals Act*. These are (i) permits, issued for a five-year term, which can be converted into leases; and (ii) leases, issued for an initial 15-year term, which can be continued as to all or any portion which the Minister of Energy may determine. The *Mines and Minerals Act* requires that exploration or development activities be undertaken according to prescribed levels of evaluation or production. Permits may generally be converted into leases provided certain minimum levels of exploration have been achieved and all lease rentals have been timely paid. Although an Oil Sands Lease may generally be continued after the initial term as to all or any portion which the Minister of Energy may determine, if the minimum levels of exploration or production have not been achieved or if lease rentals have not been timely paid, we cannot assure you that we will be able to renew all of our Oil Sands Leases as they expire.

***Operations are subject to significant government regulation.***

Our business is subject to substantial regulation under provincial and federal laws relating to the exploration for, and the development, processing, marketing, pricing, taxation, and transportation of oil sands bitumen, its related products and other matters. Changes to current laws and regulations governing operations and activities of oil sands operations could have a material adverse impact on our business. We cannot assure you that laws, regulations and government programmes related to our projects and the oil sands industry will generally not be changed in a manner which may adversely affect our projects, cause delays or the inability to complete our projects, or adversely affect our profitability.

***The permits, leases, licences and approvals which are necessary to conduct our operations may not be obtained or renewed or may be cancelled.***

Permits, leases, licences, and approvals are required from a variety of regulatory authorities at various stages of our projects. We cannot assure you that the various government permits, leases, licences and approvals sought will be granted in respect of our projects or, if granted, will not be cancelled or will be renewed upon expiry. We cannot assure you that such permits, leases, licences, and approvals will not contain terms and provisions which may adversely affect the final design and/or economics of our projects. In addition, we cannot assure you that third parties will not object to the development of our projects during the regulatory process.

***When resources and reserves have been extracted from projects, abandonment and reclamation costs will be incurred.***

We will be responsible for compliance with the terms and conditions of environmental and regulatory approvals we receive and all the laws and regulations regarding the abandonment of our exploration and delineation wells, our projects and the reclamation of our lands at the end of their economic lives. These abandonment and reclamation costs may be substantial.

A breach of such approvals, laws or regulations may result in the issuance of remedial orders, the suspension of approvals, or the imposition of fines and penalties. It is not presently possible to estimate the abandonment and reclamation costs with certainty since they will be a function of regulatory requirements in the future. The value of salvageable equipment may not fully cover these abandonment and reclamation costs.

In addition, in the future we may be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment and reclamation costs, which could divert cash resources away from capital expenditure and working capital needs. We have made a provision for decommissioning obligations.

***Our operations are subject to environmental regulation.***

Our operations are, and will continue to be, affected in varying degrees by federal, provincial and local laws and regulations regarding the protection of the environment. Should there be changes to existing laws and regulations, our competitive position within the oil sands industry may be adversely affected, and other industry players may have greater resources than we have to adapt to legislative changes.

We cannot assure you that future environmental approvals, laws or regulations will not adversely impact our ability to develop and operate our oil sands projects or increase or maintain production of bitumen or control of our costs of production. Equipment which can meet future environmental standards may not be available on economically viable terms or on a timely basis and instituting measures to ensure environmental compliance in the future may significantly increase operating costs or reduce output. There is a risk that the federal and/or provincial governments could pass legislation that would tax air emissions or require, directly or indirectly, reductions in air emissions produced by energy industry participants, which we may be unable to mitigate.

All phases of the oil sands business present environmental risks and hazards and are subject to environmental legislation and regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, prohibitions and measures for the protection of wildlife and species at risk, releases and emissions of various substances produced in connection with oil sands operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures, and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. For example, areas that may in the future be subject to both federal and provincial regulation include:

- the possible cumulative regional impacts of oil sands development;
- the manufacture, import, storage, treatment and disposal of hazardous or industrial wastes and substances;
- the reduction of various air emissions;
- water usage and changes to the terms thereof; and
- issues related to wildlife habitat restoration and protection.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Unlawful discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. We cannot assure you that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise may have a material adverse effect on our business, results of operations, financial position and growth prospects.

Oil sands leases are subject to provincial stewardship and conservation guidelines, and as such, there is a risk that surface and subsurface access and activities could be altered to conserve and protect the diversity of ecological regions, migratory species and support the efficient use of lands. The ALSA defines regional outcomes (economic, environmental and social) and includes a broad plan for land and natural resource use for public and private lands.

Additionally, although we are currently not a party to any material environmental litigation, we cannot assure you that we will not become subject to such legal proceedings in the future, which may have a material adverse effect on our business, results of operations, financial position, growth prospects and reputation.

***Operations could be adversely affected by climate change legislation.***

As is the case for all producers, our exploration activities and production facilities emit GHG which directly subjects us to statutory regulation.

On July 1, 2007, SGER came into force under the *Climate Change and Emissions Management Act* requiring Alberta facilities which emit or have emitted more than 100,000 tonnes of GHGs in 2003 or any subsequent year to reduce their GHG

emissions intensity by 12% (from emission baseline levels). A regulated facility may achieve compliance with the SGER by: (i) meeting its emissions targets; (ii) paying a \$15 per tonne levy to the Climate Change and Emissions Management Fund; (iii) applying emissions performance credits, generated by a regulated facility that has surpassed its own emissions targets; or (iv) by applying offset credits from a qualifying offset project at a non-regulated facility. Regulated facilities may choose any combination of these compliance mechanisms to comply with their target. At present, we do not operate any facilities regulated by SGER. However, we cannot assure you that we will not incur material costs in the future if the relevant provisions contained in SGER are amended. The Government of Alberta also published a new climate change action plan in January 2008 wherein it set an objective to deliver a 50% reduction in GHG emissions by 2050 compared to business as usual, by employing: (i) mandatory carbon capture and storage (“CCS”) for certain facilities and development across all industrial sectors; (ii) energy efficiency and conservation; and (iii) research and investment in clean energy technologies, including carbon separation technologies to assist CCS.

The SGER was set to expire in September 2014, however the province extended the regulation until June 30, 2015. The Government of Alberta is currently undertaking a review of the SGER, and has stated that it requires further time to continue its thorough analysis of options for a new climate change framework. It is unclear however when such a framework is expected to be released. In November 2013, Alberta released the review of the *2012 Greenhouse Gas Emission Reduction Program Results*. For 2012, 56.6% of the required reductions were achieved by emissions savings through facility operations (1.66 Mt), offsets submitted (2.63 Mt) and recognition of cogeneration (3.25 Mt). The Alberta Climate Change and Emissions Management Fund collected payments that accounted for 43.4% of the required emission reduction. As of December 31, 2013, the Alberta Greenhouse Gas Emission Reduction Program achieved cumulative reductions of 51 Mt through operational changes and investing in verified offsets created by other Alberta projects. Alberta’s revised regulations could impose additional emission or emission intensity reduction requirements.

Changes in the regulatory environment such as increasingly strict carbon dioxide emission laws could result in significant cost increases. In 2008, the Government of Canada provided details of its environmental regulatory framework, originally announced on April 26, 2007. All industrial sectors in Canada were required to reduce their emissions intensity from 2006 levels by 18% by 2010, with 2% continuous improvement every year after that. Oil sands facilities that commence production after 2012 were to meet a stricter set of requirements that are based on CCS for *in-situ* and upgrading, which were to be effective in 2018. Draft regulations to implement the framework were originally scheduled to be made available for public comment in the fall of 2008 and introduced by January 2010, but have not yet been released. It is unknown when the regulations will be released or implemented.

Canada is a signatory to the UN Framework Convention on climate change and the Kyoto Protocol established thereunder pursuant to which it was required to reduce its GHG emissions by 6% below 1990 levels by the 2008-2012 timeframe. Subsequent to ratifying the Kyoto Protocol, the Government of Canada announced that it would be unable to meet its Kyoto commitments. In December 2009 representatives from approximately 170 countries met at Copenhagen, Denmark, to negotiate a successor to the Kyoto Protocol. That meeting resulted in the non-binding Copenhagen Accord which represents a broad political consensus rather than a binding international obligation. On January 30, 2010, the Government of Canada committed to a non-binding GHG emissions target of 17% below 2005 levels by 2020 pursuant to the Copenhagen Accord. On December 12, 2011, the Government of Canada announced that it would not agree to a second Kyoto compliance period following the expiration of the first period in 2012.

The Canadian government has stated on several occasions that it would like to align its GHG emissions regime with that of the US. It is currently unclear when such legislation will be enacted in the US or what it will entail. The President of the United States has endorsed the US Environmental Protection Agency to regulate GHG emissions under the Clean Air Act. The impact of this regulation and the timing of the regulations remain unknown. It is therefore unclear whether or when the Canadian federal government will implement a GHG emissions regime or what obligations might be imposed thereunder. Any Canadian federal legislation, once enacted, could have a material effect on our operations.

Future federal industrial air pollutant and GHG emission reduction targets, together with provincial emission reduction requirements contemplated in the *Climate Change and Emissions Management Act*, or emission reduction requirements in future regulatory approvals, may require the reduction of emissions or emissions intensity from our operations and facilities, payments to a technology fund or purchase of emission performance or off-set credits. The required emission reductions may

not be technically or economically feasible for our projects and the failure to meet such emission reduction requirements or other compliance mechanisms may materially adversely affect our business and result in fines, penalties and the suspension of operations. In addition, the Canadian Council of Ministers of the Environment has been developing a federal air quality management system that will regulate air pollutant emissions and ambient air quality. The impact of this regulation and the timing of the regulations remain unknown, and it is therefore unclear what obligations may be imposed thereunder. In addition, equipment from suppliers which can meet future emission standards may not be available on an economic basis and other compliance methods of reducing emissions or emission intensity to required levels in the future may significantly increase our operating costs or reduce the output of our projects. Emission performance or off-set credits may not be available for acquisition by us, or may not be available on an economically feasible basis. There is also the risk that the provincial government could impose additional emission or emission-intensity reduction requirements, or that the federal and/or provincial governments could pass legislation which would tax such emissions.

***Changes in foreign exchange rates could adversely affect our business, results of operations and financial position.***

Our results are affected by the exchange rate between the Canadian and US dollar. The majority of our expenditures and other expenses are in Canadian dollars, and our reporting currency is the Canadian dollar. The majority of our revenues will be received in US dollars or from the sale of oil commodities that reflect prices determined by reference to US benchmark prices. An increase in the value of the Canadian dollar relative to the US dollar will decrease the revenues received and recorded in our financial statements from the sale of our products.

***Shortages in electricity and natural gas, or increases in electricity and natural gas prices may adversely affect our business, results of operations and financial position.***

We expect to consume substantial amounts of electricity and natural gas in connection with our bitumen recovery techniques, and our demand will increase as our production capabilities increase and our projects are developed. Any shortages or disruptions in our electricity or natural gas supplies could lead to increased costs. Although we plan to generate electricity for our projects through the use of our cogeneration plant rather than through purchasing power from the local grid, we cannot assure you that this plant will sufficiently supply power to our projects. If we purchase electricity from the local grids, the electricity prices could be higher than the electricity sourced from our cogeneration plant, and our operating expenses could increase.

***Shortages in water supply may adversely affect our business, results of operations and financial position.***

In SAGD operations, water is used to create steam and it is also used to separate bitumen from sand. In order to use or divert fresh water, we must first obtain a water licence. Any shortages in our water supply could lead to increased costs, and any delays or difficulties in obtaining or maintaining a water licence could adversely affect our operations.

***Our independent reserves evaluators have not undertaken site inspections of our properties or independently verified the data provided to them by Sunshine.***

Both GLJ and D&M rely on, amongst other things, the data provided to them by us in their evaluation of our reserves and resources. Our independent reserves evaluators have not undertaken site inspections of our properties. Further, data provided to our independent reserves evaluators by us is considered by our independent reserves evaluators, but is only independently verified through public data, analogous developments and/or interpreted by utilising the GLJ and D&M's experience and industry knowledge. Our independent reserves evaluators provide independent evaluation of our resources based on all available data. We cannot be certain that our independent reserves evaluators would not have evaluated our reserves and resources, as disclosed in this AIF, differently, if they had conducted a site visit or relied only on public data sources not including the information directly provided by Sunshine.

## **Risks Relating to Alberta and Canada**

### ***Cash flow and profitability could be affected by changes in Alberta's royalty regime and by increased taxes.***

The development of our resource assets will be directly affected by the applicable fiscal regime. The economic benefit of future capital expenditures for our projects is, in many cases, dependent on the fiscal regime. The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta unveiled a new royalty regime. The new regime introduced new royalties for conventional oil, natural gas and crude bitumen and became effective on January 1, 2009. On March 10, 2010, the Government of Alberta announced further changes to Alberta's royalty system. These royalties are linked to commodity prices and production levels and will apply to both new and existing oil sands projects and conventional oil and gas activities. The royalty rates within this new regime have since been subject to change, and may be subject to change in the future.

Under this regime, the Government of Alberta increased its royalty share from oil sands production by introducing price-sensitive formulas which will be applied both before and after specified allowed costs have been recovered. These changes to Alberta's oil sands royalty regime required changes to existing legislation, including the *Mines and Minerals Act*, and the implementation of certain new legislation, namely the *Oil Sands Royalty Regulation*, the *Oil Sands Allowed Cost (Ministerial) Regulation*, and the *Bitumen Valuation Methodology (Ministerial) Regulation*. While the intent of such revised and newly implemented legislation is to provide a fair, predictable and transparent royalty regime, each of the abovementioned statutes have been partially amended since 2009, and in some cases specifically remain open to changing circumstances and new categories of costs, and as such remain subject to further future modification, whether as a result of industry developments, renewed public and/or industry consultation or otherwise.

We cannot assure you that the Government of Alberta or the Government of Canada will not adopt a new fiscal regime or otherwise modify the existing fiscal regime governing oil sands producers in a manner that could materially affect the financial prospects and results of operations of oil sands developers and producers in Alberta, including us.

### ***Claims may be made by aboriginal peoples.***

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada based on historic use and occupation of lands, historic customs and treaties with governments. Such rights may include rights to access the surface of the lands, as well as hunting, harvesting and fishing rights. We are not aware that any claims have been made in respect of our specific properties or assets. However, if a claim arose and was successful such claim could, among other things, delay or prevent the exploration or development at our projects, which in turn could have a material adverse effect on our business, results of operations, financial position and growth prospects.

Prior to making decisions that may adversely affect existing or claimed aboriginal rights and interests, the government has a duty to consult with potentially affected aboriginal peoples. The time required for the completion of aboriginal consultations may affect the timing of regulatory authorisations. Furthermore, any agreements or arrangements reached pursuant to such consultation may materially affect our business, results of operations, financial position and growth prospects.

### ***As a Canadian company, it could be difficult for our investors not resident in Canada to effect service of process on and recover against us or our Directors and officers. Shareholders who are not resident in Canada may face difficulties in protecting their interest.***

We are a Canadian company and the majority of our officers and Directors are residents of Canada. A substantial portion of our assets and the assets of our officers and Directors, at any one time, are located in Canada. It could be difficult for investors not resident in Canada to effect service of process within Canada on our Directors and officers who reside outside their jurisdiction or to recover against us or our Directors and officers on judgments of foreign courts predicated upon the laws of other jurisdictions.

Our corporate affairs are governed by our charter documents, consisting of our Articles, and by the ABCA. The rights of our Shareholders and the fiduciary responsibilities of our Directors are governed by the laws of Alberta and Canada. The laws of

Alberta and Canada relating to the protection of the interests of minority Shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Investors not resident in Canada should be mindful of such differences.

### **Risks Relating to Our Shares**

***The price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares.***

Factors such as fluctuations in our revenue, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our Shares or trading volume of our Shares to change substantially and unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may materially and adversely affect the prices of shares, and as a result investors in our Shares may incur substantial losses.

***Future sale or major divestment of Shares by any of our substantial Shareholders could adversely affect the prevailing market price of the Shares.***

The Shares held by certain substantial Shareholders are subject to certain reporting requirements. We cannot assure you that these Shareholders will not dispose of any Shares. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of the Shares.

***Future issuances or sales, or perceived issuances or sales, of substantial amounts of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares and the Corporation's ability to raise capital in the future.***

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, including by our substantial Shareholders, or our issue of new Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price favourable to it, and our Shareholders would experience dilution in their holdings upon issuance or sale of additional securities in the future.

***We may not be able to pay any dividends on the Shares.***

We cannot guarantee when, if and/or in what form dividends will be paid on our Shares in the future. A declaration of dividends must be proposed by our Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to make dividend distributions to Shareholders in the future, even if our financial statements prepared under IFRS indicate that our operations have been profitable. For further details on our dividend policy, please refer to the section titled “*Financial Information - Dividend Policy*” in this AIF. In addition, the ability of the Corporation to declare dividends is currently subject to restrictions under the provisions of the Indenture.

***Issuance of Shares pursuant to the Share Option Schemes could result in dilution to our Shareholders.***

We have granted options over our Shares pursuant to two Pre-IPO Share Option Schemes and one Post-IPO Share Option Scheme. As of the date of this AIF, including all share option schemes, there are outstanding options to subscribe for 133,397,441 Shares, representing approximately 3.42% of Shares issued and outstanding as of the date of this AIF. If these options are exercised, there would be an increase in our issued Share capital, which in turn would dilute our existing Shareholders' shareholding interest in us and reduce the *pro forma* earnings per Share.

## **DIVIDENDS**

The Corporation has not declared or paid any dividends since its incorporation. The Corporation does not have a present intention to pay any dividends. The payment of dividends in the future will depend on the Corporation's earnings, financial condition and such other factors as the board of directors considers appropriate. In addition, the ability of the Corporation to declare dividends is currently subject to restrictions under the provisions of the Indenture.

### **DESCRIPTION OF SHARE CAPITAL AND DEBT SECURITIES**

The authorized capital of the Corporation consists of an unlimited number of shares designated as Class "A" Common Voting Shares, Class "B" Shares, Class "C" Common Non-Voting Shares, Class "D" Common Non-Voting Shares, Class "E" Common Non-Voting Shares, Class "F" Common Non-Voting Shares, Class "G" Shares and Class "H" Shares.

As of the date of this AIF, the Corporation has 3,897,952,178 Class "A" Common Voting Shares and nil shares of any other class of shares in the capital of the Corporation issued and outstanding.

#### **Common Shares**

The Corporation is authorised to issue an unlimited number of Common Shares.

Holders of Class "A" Common Voting Shares and Class "B" Common Voting Shares have the following rights, privileges, conditions and restrictions: (i) the right to vote at any meeting of Shareholders; and (ii) the right to receive the remaining property of the Corporation on dissolution, whether voluntary or involuntary. Such property shall be divided equally among all classes of Common Shares and the right to receive dividends as declared by the Corporation provided that such dividends may be declared on any class of Common Shares, or on any combination of classes of Common Shares, to the exclusion of any class or classes of Common Shares, or in part on each class.

Holders of Class "C" Common Non-Voting Shares, Class "D" Common Non-Voting Shares, Class "E" Common Non-Voting Shares and Class "F" Common Non-Voting Shares have the following rights, privileges, conditions and restrictions: (i) no right to vote at any meeting of Shareholders; and (ii) the right to receive the remaining property of the Corporation on dissolution, whether voluntary or involuntary. Such property shall be divided equally among all classes of Common Shares, and the right to receive dividends as declared by the Corporation provided that such dividends may be declared on any class of Common Shares, or on any combination of classes of Common Shares, to the exclusion of any class or classes of Common Shares, or in part on each class. None of these classes of shares have been issued.

#### **Preferred Shares**

The Corporation is authorised to issue an unlimited number of Preferred Shares to eligible persons, namely, its Directors, officers, employees, consultants or advisers.

The Preferred Shares are non-cumulative, redeemable and retractable (provided that purchases not made by tender, or through the market, shall be limited to a maximum price and, provided further, that if purchases are made by tender, tenders shall be available to all Shareholders alike) which may be issued for such consideration and bearing such rights, privileges, conditions and restrictions, in addition to the following, as determined by the Director(s) before issue:

- (1) The holders of the Class "G" and Class "H" Preferred Non-Voting shares shall in each year be entitled, out of any or all profits or surplus available for dividends, to a non-cumulative cash dividend calculated at such a rate as the Directors set at the time of issuance. No dividend shall be declared and paid on or set apart for payment on the Common Shares or any other shares that rank junior to the Class "G" and Class "H" Preferred Non-Voting shares in any fiscal year unless the dividends on all the Class "G" and Class "H" Preferred Non-Voting shares which are issued and outstanding at that time have been declared and paid for that fiscal year or set apart for payment, except with the consent in writing of all the holders of the Class "G" and Class "H" Preferred Non-Voting shares.



- (2) Upon dissolution of the Corporation, the holders of the Class “G” and Class “H” Preferred Non-Voting shares shall take priority with regards to the return of capital and distribution of assets. They shall receive an amount equal to the amounts paid up on the shares held by them together with all declared and unpaid dividends thereon, if any. After payment to the holders of the Class “G” and Class “H” Preferred Non-Voting shares as provided for above, they shall not be entitled to share in any further distribution of the assets or property of the Corporation.
- (3) The Class “G” and Class “H” Preferred Non-Voting shares shall not be entitled to vote at any meeting of the Shareholders, to receive notice of such meeting or to attend same, subject to the provisions of the ABCA.

The Preferred Shares carry both redemption and retraction rights and are convertible, at the option of the holders, into Common Shares as per a conversion schedule. Notwithstanding the above, the Preferred Shares shall be automatically converted into Common Shares of Sunshine on the date that is the earlier of:

- the date that is 24 months after the date Sunshine completed its listing on the SEHK;
- the date upon which a change of control of the Corporation occurs;
- the expiry date of December 31, 2013.

All issued and outstanding Class “G” and Class “H” Preferred Non-Voting shares were converted to Class “A” Common Voting Shares on or before December 31, 2013.

## Notes

*The following is only a summary of certain characteristics of the Notes. For a complete description of the Notes and the rights and conditions associated therewith, see the full text of the Indenture which is available under Sunshine’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **General**

On August 8, 2014, the Corporation closed an offering of US\$200 million principal amount of 10% senior secured notes (the “Notes”) issued at a price of US\$938.01 per US\$1,000 principal amount. The Notes were offered in Canada and in the United States on a private placement basis.

Interest on the Notes will accrue at a rate of 10% per annum, with interest payments made semi-annually on February 1 and August 1 of each year commencing on February 1, 2015. On August 1, 2016, Sunshine is required to pay the holders of any Notes then outstanding a yield maintenance premium of 7.298% of the aggregate principal amount of the Notes (the “**Yield Maintenance Premium**”).

The Notes have a maturity date of August 1, 2017. However, if by February 1, 2016 Sunshine has not: (i) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (ii) deposited, or caused to be deposited, in an escrow account, cash in an amount sufficient to pay one year of interest payments on the aggregate principal amount of notes outstanding on February 1, 2016 and the Yield Maintenance Premium, then the final maturity date will be August 1, 2016.

### **Escrow Account**

US\$30 million of the proceeds of the Notes was funded into an escrow account, pursuant to the Indenture, representing 18 months of interest in respect of the Notes (calculated based upon the aggregate principal amount of Notes initially issued). We are entitled to cause such funds to be released from the escrow account solely to make payments of interest on the Notes.

### ***Guarantees***

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by certain future subsidiaries of the Corporation. Sunshine Hong Kong, the Corporation's sole existing subsidiary, which holds only nominal assets, did not guarantee the Notes on the issue date and will not, except in certain circumstances, on any date thereafter.

### ***Security Interest***

The Notes are secured by a first priority security interest in substantially all of Sunshine's and any guarantors' tangible and intangible assets, subject to certain permitted liens. The Notes contain a carveout for a senior credit facility once Sunshine reaches certain production and PV-10 levels, at which point the Notes and guarantees will have a second-priority security interest in the collateral behind such senior credit facility.

### ***Ranking***

The Notes and the guarantees will be the Corporation's and the guarantors' senior secured obligations and rank:

- equally in right of payment with all of the Corporation's and the guarantors' future senior obligations;
- senior in right of payment to all of the Corporation's and the guarantors' future subordinated indebtedness;
- effectively senior to the Corporation's future unsecured indebtedness to the extent of the value of the collateral securing the Notes and the guarantees; and
- effectively junior to all of the Corporation's and the guarantors' obligations under a permitted senior credit facility, once we reach certain production and PV-10 levels, which may be secured by liens on the collateral that ranks senior to the liens securing the Notes and the guarantees.

### ***Optional Redemption***

On or after August 1, 2015, Sunshine may redeem some or all of the Notes at a redemption price that includes a certain specified premium based on the redemption date and any accrued and unpaid interest. The Notes are also subject to redemption in certain other circumstances described in the Indenture, including at 100% of the principal amount in the event of changes in certain tax laws.

### ***Additional Amounts***

In the event that certain taxes are payable in respect of payments on the Notes and the guarantees, the Corporation will, subject to certain exceptions, pay such additional amounts as will result, after deduction or withholding of such taxes, in the receipt of the amounts which would have been received in respect of the Notes and the guarantees, respectively, had no such withholding or deduction been required.

### ***Change of Control Rights***

If Sunshine experiences certain kinds of changes of control, each holder of the Notes will have the right to require Sunshine to repurchase all or any part of their Notes at an offer price in cash equal to 101% of the aggregate principal amount thereof, plus any accrued and unpaid interest to the date of the purchase.

### ***Asset Sales***

Upon certain asset sales, Sunshine may be required to use an amount of cash equal to the net cash proceeds of such sales to offer to repurchase a portion of the Notes at a price in cash equal to 100% of the aggregate principal amount thereof, plus any accrued and unpaid interest to the date of the purchase.

## Covenants

The Indenture contains covenants that limit Sunshine’s ability to, among other things: (i) transfer or sell assets including capital stock of restricted subsidiaries or use asset sale proceeds; (ii) pay dividends or make distributions, redeem subordinated debt or make other restricted payments; (iii) make loans and certain investments; (iv) incur or guarantee additional debt or issue preferred equity securities and certain disqualified stock; (v) create or incur certain liens on our assets; (vi) incur dividend or other payment restrictions affecting our restricted subsidiaries; (vii) merge, amalgamate, consolidate, sell or otherwise dispose of all or substantially all of our assets; (viii) enter into certain transactions with affiliates; (ix) until Sunshine reaches certain production levels, make capital expenditures or investments except for capital expenditures or investments in our West Ells asset; (x) designate any of our subsidiaries as unrestricted subsidiaries; and (xi) establish or permit to exist, or permit any of its restricted subsidiaries to establish or permit to exist, any Defined Benefit Plan (as defined in the Indenture). These covenants are subject to a number of exceptions and qualifications and are described in more detail in the Indenture.

## MARKET FOR SECURITIES

### Trading Price and Volume

As of the date of this AIF, the Shares of the Corporation are listed and posted for trading on the SEHK under the stock code “2012”. The following table sets forth the price range and trading volume of the Shares as reported by the SEHK for the period commencing January 1, 2014 to December 31, 2014:

Month	Class "A" Common Voting Shares		
	High (HK\$)	Low (HK\$)	Volume
<b>2014</b>			
January	1.63	1.51	137,515,900
February	1.60	1.33	136,210,080
March	1.45	1.29	214,506,854
April	1.28	0.80	434,244,958
May	1.06	0.81	183,642,530
June	1.22	0.66	559,066,032
July	1.18	0.77	379,155,528
August	1.15	0.89	345,943,356
September	1.08	0.90	202,748,211
October	1.03	0.88	122,552,775
November	0.89	0.72	151,013,050
December	0.71	0.55	239,812,892

As of the date of this AIF, the Shares of the Corporation are listed and posted for trading on the TSX under the stock symbol “SUO”. The following table sets forth the price range and trading volume of the Shares as reported by the TSX for the period commencing January 1, 2014 to December 31, 2014.

Month	Class "A" Common Voting Shares		
	High (\$)	Low (\$)	Volume
<b>2014</b>			
January	0.235	0.210	8,253,761
February	0.220	0.190	3,874,766
March	0.205	0.175	8,871,858
April	0.175	0.135	7,353,456
May	0.150	0.125	4,736,654
June	0.170	0.110	10,499,654
July	0.160	0.115	16,977,111
August	0.150	0.130	9,726,360
September	0.150	0.135	10,021,832
October	0.155	0.125	8,553,408
November	0.130	0.090	5,532,209
December	0.100	0.080	18,242,785

### Prior Sales

On August 8, 2014, Sunshine issued US\$200 million principal amount of 10.0% Notes due August 1, 2017. Please refer to “*Description of Share Capital and Debt Securities - Notes*” for a description of the Notes.

The following stock options were granted pursuant to the Post-IPO Share Option Scheme during the most recently completed financial year of the Corporation:

<u>Date of Issuance</u>	<u>Type of Security</u>	<u>Exercise Price per Security</u>	<u>Number of Securities</u>
September 4, 2014	Options	\$0.135	53,910,982
November 24, 2014	Options	\$0.115	2,411,262
December 5, 2014	Options	\$0.105	1,297,696
December 17, 2014	Options	\$0.09	13,000,000

The following warrants (including finder’s warrants) were issued in connection with financings undertaken by the Corporation during the most recently completed financial year:

<u>Date of Issuance</u>	<u>Type of Security</u>	<u>Exercise Price per Security</u>	<u>Number of Securities</u>
January 14, 2014	Warrants	HK\$1.88 <sup>(1)</sup>	33,431,372
January 21, 2014	Warrants	HK\$1.88 <sup>(1)</sup>	33,000,000
February 7, 2014	Warrants	HK\$1.88 <sup>(1)</sup>	33,000,000
February 28, 2014	Warrants	HK\$1.88 <sup>(1)</sup>	33,479,569

### Notes:

(1) Approximately \$0.26.

Other than as set out above, the Corporation does not have any class of securities outstanding which are not listed or quoted on a marketplace.

## DIRECTORS AND OFFICERS

### Name, Address, and Principal Occupations

The names, municipality of residence and principal occupation during the last five years of each of the directors and senior officers of the Corporation are as follows:

Name, Municipality of Residence & Current Position(s) with the Corporation	Principal Occupation in the Past Five Years	Director Since	Shares Beneficially Owned or Over Which Control or Direction Exercised as at March 26, 2015 (As a Percentage of Total Number of Shares Outstanding)
<b>Tingan Liu</b> <sup>(1)</sup> Kowloon, Hong Kong China <i>Non-Executive Chairman, Director and Hong Kong Corporate Secretary</i>	Non-executive Chairman of the Corporation since November 2014. Deputy chairman and president of China Life Insurance (Overseas) Company Limited since June 2008. Council member of the Financial Services Development Council of the Hong Kong S.A.R. since January 2013. Member of the Listing Committee of the SEHK since July 2010. Member of the Insurance Advisory Committee of the Government of Hong Kong S.A.R. since October 2010.	February 1, 2011	Nil
<b>Michael J. Hibberd</b> <sup>(1)</sup> Calgary, Alberta Canada <i>Executive Vice-Chairman and Director</i>	Executive Vice-Chair of the Corporation since November 2014. Executive Co-Chairman of the Corporation from October 2008 to November 2014. Prior thereto, from August 2007 to October 2008, Chairman and Co-CEO of the Corporation. President and Chief Executive Officer of MJH Services Inc., a corporate finance advisory company, since January 1995. Chairman of Greenfields Petroleum Corporation since February 2010. Chairman of Canacol Energy Ltd. since October 2008. Director of Pan Orient Energy Corp. since April 2005. Director of Petro Frontier Corp. since September 2013. Director of Montana Exploration Corp. since 1997.	May 9, 2007	96,677,085 (2.48%)
<b>Qi Jiang</b> Calgary, Alberta Canada <i>Director and President &amp; Chief Operating Officer</i>	Vice President, Reservoir and Production Engineering at OSUM Oil Sands Corp. since 2012. Prior thereto, manager EOR and reservoir engineering with OSUM Oil Sands Corp. from 2008 to 2011.	December 15, 2014	Nil
<b>Hu Jin (Jimmy Hu)</b> <sup>(3)</sup> Beijing China <i>Director and Senior Vice President, Corporate Strategies</i>	Senior Vice President, Corporate Strategies of the Corporation since July 2014 and Vice President at Harbin Gloria Pharmaceuticals Co. and Chairman and Chief Executive Officer of Shenzhen YongBangSiHai Private Equity Fund since 2012. Prior thereto, executive vice president and Chief Financial Officer of China TMK Battery Systems, Inc. from 2010 to 2012, and the financial controller of Johnson & Johnson China Ltd. from 2009 to 2010.	June 27, 2014	43,478 (0.00%)

Name, Municipality of Residence & Current Position(s) with the Corporation	Principal Occupation in the Past Five Years	Director Since	Shares Beneficially Owned or Over Which Control or Direction Exercised as at March 26, 2015 (As a Percentage of Total Number of Shares Outstanding)
<b>Hok Ming Tseung</b> <sup>(3)</sup> Hong Kong China <i>Director</i>	Director of Orient International Resources Group Limited since April 2010. Director of Dongwu Cement International Ltd. Director of Orient International Petroleum & Chemical Limited since December 2004. Director of Orient Financial Holdings Limited since July 2002. Director of Dongwu Cement International Ltd. since November 2011, which became a public company listed on the SEHK on June 13, 2012. Director of Jiangsu Xinmin Textile Science & Technology Co., Ltd., since September 2013, which became a public company listed on the SEHK and SSE respective on April 2007.	March 2, 2010	295,383,656 (7.58%)
<b>Haotian Li</b> <sup>(1)</sup> Hong Kong China <i>Director</i>	Director of Bank of China Investment Limited and Director of BOCGI Zheshang Investment Fund Management (Zhe Jiang) Co., Ltd. since June 2010. Deputy Chief Executive Officer of Bank of China Group Investment Limited since November 2008. Prior thereto, Head of Client Relations of the corporate banking department (oil and gas sector coverage) at Bank of China Headquarters from July 1999 to November 2008.	February 14, 2011	Nil
<b>Raymond S. Fong</b> <sup>(2)(3)(4)</sup> Calgary, Alberta Canada <i>Director</i>	Director of Palinda International Group Limited since September 2012. Prior thereto, Chief Executive Officer of China Coal Corporation of Calgary from May 2010 to December 2012. Director of Abenteuer Resources Ltd. from November 2000 to August 2008. Director of Stealth Ventures Ltd. from November 1999 to November 2007. Director of Zapata Capital Inc. from January 1998 to June 1999 and director of United Rayore Gas Ltd. from January 1990 to January 1997.	May 9, 2007	8,250,621 (0.21%)
<b>Robert J. Herdman</b> <sup>(3)(4)</sup> Calgary, Alberta Canada <i>Director</i>	Director of Black Diamond Group since March 2012. Director of Chinook Energy Inc. since July 2010. Director of Blackline GPS Corp. since April 2011. Prior thereto, Partner at PricewaterhouseCoopers LLP, Calgary from July 1989 to July 2010 and Director of TriOil Resources Ltd. from February 2012 to November 2013.	July 18, 2011	150,621 (0.00%)
<b>Gerald F. Stevenson</b> <sup>(2)(4)</sup> Calgary, Alberta Canada <i>Director</i>	Director of Southwest Energy Trust from August 2011 to April 29, 2013. Prior thereto, from January 2006 to April 2011, head of oil & gas acquisitions and divestitures for CIBC World Markets Inc., Calgary and VP Business Development at Enerplus responsible for acquisitions and divestitures from October 2001 to March 2003.	July 15, 2011	184,621 (0.00%)
<b>Song Zhefei (Bill Song)</b> <sup>(4)</sup> Mississauga, Ontario Canada <i>Director</i>	President of Admetal Engineering Corp. since 2001 and co-founder and CEO of Telamonn Energy Services Inc. since 2012. Mr. Song established his own company, Admetal Engineering Corp. in Canada in 2001 and co-founded Telamonn Energy Services Inc. in 2012.	June 27, 2014	Nil

Name, Municipality of Residence & Current Position(s) with the Corporation	Principal Occupation in the Past Five Years	Director Since	Shares Beneficially Owned or Over Which Control or Direction Exercised as at March 26, 2015 (As a Percentage of Total Number of Shares Outstanding)
<b>Hong Luo</b> Calgary, Alberta Canada <i>Director</i>	Executive Vice President of Sinopec Canada since 2012. Prior thereto, Director of strategy and planning at SIPC from September 2009 to January 2012, President of West Africa and Asia-Pacific exploration and production projects from May 2008 to August 2009.	November 28, 2014	Nil
<b>Qiping Men</b> Calgary, Alberta Canada <i>Interim Chief Financial Officer</i>	Interim Chief Financial Officer of the Corporation since July 2014. Prior thereto, Vice President of Goldenkey Oil Inc. from March 2011 to June 2014, Chief Financial Officer and Vice President of Anterra Energy Inc. from September 2010 to August 2013, Chief Financial Officer and Vice President of Sahara Energy Ltd. from November 2010 to August 2011 and Business owner of Qiping Men Professional Corp. from October 2007 to April 2012.	–	134,509 (0.00%)
<b>Dong Liu</b> Hong Kong China <i>Senior Vice President, Hong Kong and Canada</i>	Senior Vice President in Hong Kong and Canada since May 2012. Mr. Liu has more than eight years of experience in investor relations, equity and capital markets, and merger & acquisition transactions. He was previously with Orient International for over seven years, where he was Vice President of Orient Financial Holdings Limited since 2006.	–	800,000 (0.02%)
<b>Songbo Cong</b> Calgary, Alberta Canada <i>Senior Vice President, Engineering</i>	Senior Vice President, Engineering, since September 2014 and was a director of the Corporation from May 2007 to December 2007. Prior thereto, Principal Engineer at Honeywell International Inc. From January 2005 to December 2007 and Group Manager at Aspentech (Hyprotech) from June 2000 to December 2007.	–	6,429,696 (0.16%)
<b>Richard Walter Pawluk</b> Calgary, Alberta, Canada <i>Canadian Corporate Secretary</i>	Partner, McCarthy Tétrault LLP since January 2003.	–	4,241,000 (0.11%)

**Notes:**

- (1) Member of the Corporate Governance Committee.
- (2) Member of the Reserves Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Audit Committee.

**Share Ownership by Directors and Officers**

The Corporation's officers and Directors beneficially own, as a group, or exercise control or direction over, directly or indirectly 413,849,377 Shares as at March 26, 2015. As at March 26, 2015, the Shares held by the Corporation's officers and Directors represent approximately 10.62% of the issued and outstanding Shares and 10.98% of the issued and outstanding Shares on a fully diluted basis including options held by the Corporation's officers and Directors.

## Corporate Cease Trade Orders or Bankruptcies

To the knowledge of the management of the Corporation, no director or executive officer of Sunshine, is at the date of this AIF, or has been, within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including Sunshine) that, while such person acted in such capacity:

- was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- was subject to an event that resulted, after such person ceased to be a director, chief executive officer or chief financial officer (as applicable), in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days.

Except as disclosed herein, no director, executive officer, or principal shareholder of Sunshine:

- is, at the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of any company (including Sunshine) that, while such person was acting in such capacity or within one year of such person ceasing to act in such capacity, became; or
- has, within the 10 years before the date of this AIF, become:

bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets or the assets of the proposed director.

Mr. Hibberd was an independent director of Challenger Energy Corp. (“**Challenger**”) from December 1, 2005 to September 16, 2009. Challenger obtained a creditor protection order under the *Companies’ Creditors Arrangement Act*, from the Court of Queen’s Bench of Alberta, Judicial District of Calgary on February 27, 2009. On June 19, 2009, Challenger announced that it had entered into an arrangement agreement providing for the acquisition by Canadian Superior Energy Inc. of Challenger. On September 17, 2009, all common shares of Challenger were exchanged for common shares of Canadian Superior. Mr. Hibberd was formerly a director of Skope Energy Inc. (a TSX listed oil and gas company), which commenced proceedings in the Court of Queen’s Bench of Alberta under the *Companies’ Creditors Arrangement Act* (Canada) to implement a restructuring in November 2012 which was completed on February 19, 2013.

Mr. Herdman served as a director of SemBioSys Genetics Inc. (“**SemBioSys**”), a development stage biotechnology company, until May 1, 2012. On June 22, 2012, a secured creditor of SemBioSys was granted an order under the Bankruptcy and Insolvency Act (Canada) appointing a receiver to take possession of and deal with specific assets of SemBioSys which had been pledged to that creditor. The receiver was discharged on November 30, 2012 pursuant to court order.

## Penalties or Sanctions

To the knowledge of the management of the Corporation, no director, executive officer or principal shareholder of Sunshine has:

- been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority;
- entered in a settlement agreement with a securities regulatory authority; or
- has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

## Conflicts of Interest

Certain officers and directors of Sunshine are also officers and/or directors of other companies engaged in the oil and gas business generally. For example, Mr. Hong Luo is a director and proposed Chief Executive Officer of Sunshine and is



currently the Executive Vice President of Sinopec Canada. As a result of those other offices or directorships, situations may arise where the interests of the directors and officers of Sunshine may conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Corporation. The ABCA provides that in the event that an officer or director is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or material transaction or proposed material contract or proposed material transaction, such officer or director shall disclose the nature and extent of his or her interest and shall refrain from voting to approve such contract or transaction, unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

Except as otherwise disclosed herein, as of the date hereof, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Corporation has been named as a Defendant in a Court of Queen's Bench of Alberta Judicial District of Calgary action, commenced by Cross Strait Common Development Fund Co., Limited ("**Cross Strait**"), a shareholder of the Corporation, by Statement of Claim filed January 2, 2014. Cross Strait alleges that, pursuant to a Subscription Agreement entered into in January 2011, it is entitled to require Sunshine to repurchase 4,132,232 Shares of the Corporation that Cross Strait acquired pursuant to the Subscription Agreement. This constitutes a claim for \$40 million plus interest at 15% per annum since the date of the Subscription Agreement. The Corporation filed its Statement of Defence on April 2, 2014 and the matter is currently in the disclosure stage.

Other than as set forth above, to the knowledge of the Corporation, there were no legal proceedings material to the Corporation to which the Corporation is or was a party, or to which any of its properties is or was subject, nor are there any such proceedings known to the Corporation to be contemplated. For the purposes of the foregoing, a legal proceeding is not considered to be "material" by the Corporation if it involves a claim for damages and the amount involved, exclusive of interest and costs, does not exceed 10% of the Corporation's total assets, provided that if any proceeding presents in large degree the same legal and factual issues as other proceedings pending or known to be contemplated, the Corporation has included the amount involved in the other proceedings in computing the percentage.

During the year ended December 31, 2014, there were: (a) no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (b) no penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; and (c) no settlement agreements entered into by the Corporation before a court relating to securities legislation or with a securities regulatory authority.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed in this AIF, none of Sunshine's directors or executive officers, nor any person who beneficially owns directly or indirectly or exercises control or direction over securities carrying more than 10% of the voting rights attaching to the shares in the capital of the Corporation, nor any known associate or affiliate of these persons had any material interest, direct or indirect in any transaction since the commencement of the Corporation's last completed financial year which has materially affected the Corporation, or in any proposed transaction which has materially affected or would materially affect the Corporation.

On October 18, 2011, the Corporation entered into a two-year credit facility with Orient in the principal amount of \$100 million for general corporate purposes. Mr. Hok Ming Tseung, one of the current directors of the Corporation, is the sole director of Orient. The only draws under the facility were repaid in full and the facility cancelled during 2012.

Mr. Michael Hibberd, Executive Vice-Chairman and a director of the Corporation, purchased US\$2 million principal amount of Notes in August 2014.

## **TRANSFER AGENT AND REGISTRAR**

The Corporation maintains a central securities register in Canada and a branch securities register in Hong Kong. The transfer agent and registrar for the central securities register in Canada is Alliance Trust Company located at Suite 1010, 407 – 2<sup>nd</sup> Street SW, Calgary, Alberta, T2P 2Y3. The transfer agent and registrar for the branch securities register in Hong Kong is Computershare Hong Kong Investor Services Limited located at Hopewell Centre 46<sup>th</sup> Floor, 183 Queen’s Road East Wan Chai, Hong Kong.

## **AUDIT COMMITTEE**

The purpose of the Corporation’s Audit Committee is to provide assistance to the Board in fulfilling its legal fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation. The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board all public financial disclosure information such as financial statements, management’s discussion and analysis, AIFs and prospectuses. The Audit Committee also pre-approves all non-audit services to be conducted by the external auditors and ensures that management has effective internal control systems, investigates any recommendations for improvement of internal controls and meets at least annually with the Corporation’s external auditors without management present and at least quarterly with management present. Sunshine does not have internal auditors and, given the size of the Corporation, Sunshine considers this to be practical and appropriate. The Audit Committee expects to convene no less than four times each year and as circumstances otherwise warrant.

The full text of the Audit Committee’s Charter is attached hereto as Schedule “C”.

### **Composition of the Audit Committee**

The Audit Committee is comprised of Mr. Herdman, who is the chairman, and Messrs. Stevenson, Fong and Song. Each of the members of the Audit Committee is financially literate under Section 1.5 of NI 52-110. Messrs. Herdman, Stevenson, Fong and Song are independent as such term is described under Section 1.4 of NI 52-110.

### **Relevant Education and Experience**

The following is a description of the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

#### **Mr. Robert John Herdman**

Mr. Herdman is a fellow chartered accountant and was formerly a partner at Price Waterhouse and PricewaterhouseCoopers LLP from 1989 to 2010 in Calgary serving the firm’s Calgary based public clients including service to companies operating in both the mining and thermal recovery of oil sands. Following a 34 year career with PricewaterhouseCoopers LLP, Mr. Herdman retired from practice in 2010. Mr. Herdman currently serves on the boards of directors of Blackline GPS Corp., Chinook Energy Inc. and Black Diamond Group, all public companies listed on the TSX or the TSX Venture Exchange. Mr. Herdman is also a board member of Zag Bank and Western Financial Group Inc., which voluntarily delisted in 2013 as it no longer has publicly traded securities. He was a member of the governors of the Glenbow Museum. He has served on a number of other committees overseeing the practice of accounting in Alberta and as a director for a number of non-profit making organisations. Mr. Herdman graduated with a Bachelor of Education Degree from the University of Calgary in 1974.

#### **Mr. Gerald Franklin Stevenson**

Mr. Stevenson has over 37 years of experience in oil and natural gas operations including senior management positions at a number of Canadian and international energy companies. He was head of oil & gas acquisitions and divestitures for CIBC

World Markets Inc. in Calgary, Alberta from January 2006 to April 2011 where he was responsible for selling oil and gas companies or individual oil and gas properties, and was involved in Mergers & Acquisitions and financing activities.

Mr. Stevenson was at Suncor Inc. from July 1985 to June 1991, North Canadian Oils Limited from July 1991 to June 1993, Waterous & Co from July 1993 to August 1997, February 2000 to October 2001, and March 2003 to July 2005, and Enerplus Resources Fund from October 2001 to March 2003, where he was responsible for acquisitions and divestitures. He was vice-president, production of Hurricane Hydrocarbons from April 1998 to October 1998 and was appointed interim President, Chief Executive Officer and director of Hurricane Hydrocarbons in October 1998.

### **Mr. Raymond Fong**

Mr. Fong has over 30 years of experience in the oil and gas industry. Mr. Fong is currently an executive director for Palinda International Group limited. He held previous directorships with China Coal Corporation, Abenteuer Resources Ltd., Stealth Ventures Ltd., Zapata Capital Inc., was a director and the President of Ultra Capital Inc. and was 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 Ontario and Alberta, Canada.

### **Mr. Bill Song**

Mr. Song has extensive experience in the Asian and Canadian oil and gas industry, starting in 1995 through selling equipment in China. Mr. Song's customers included all major players in the Chinese oil and gas industry: China National Offshore Oil Corp (CNOOC), China National Petroleum Corporation (CNPC), and China Petrochemical Corporation (China SINOPEC). Mr. Song established his own company, Admetal Engineering Corp. in Canada in 2001 and co-founded Telamonn Energy Services Inc. in 2012. Mr. Song has previous management experience with Siemens.

### **Audit Committee Oversight**

Since the commencement of the Corporation's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor.

### **Pre-Approval Policies and Procedures**

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services, including tax advisory and compliance services. The Audit Committee has the authority to establish financial thresholds for fees for non-audit services to be provided by the external auditors without advance approval of the Audit Committee. See the *Other Responsibilities* provisions of the Audit Committee Charter which is attached hereto as Schedule "C"

### **External Auditor Service Fees**

The fees paid to the Corporation's external auditor in each of the last two fiscal years are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees<sup>(1)</sup></b>	<b>Audit-Related Fees<sup>(2)</sup></b>	<b>Tax Fees<sup>(3)</sup></b>	<b>All Other Fees<sup>(4)</sup></b>
December 31, 2014	\$191,810	\$62,595	\$108,134	\$119,305
December 31, 2013	\$239,064	\$76,868	\$100,045	Nil

#### **Notes:**

- (1) The aggregate fees billed by the Corporation's auditor for audit fees.
- (2) The aggregate fees billed for assurance and related services by the Corporation's auditor that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not disclosed in the "Audit fees" column.
- (3) The aggregate fees billed for professional services rendered by the Corporation's auditor for tax compliance, tax advice, and tax planning.
- (4) The aggregate fees billed for professional services rendered by the Corporation's auditor in relation to private placements and prospectus filings.

## **MATERIAL CONTRACTS**

Other than the Indenture and those contracts entered into in the normal course of business, the Corporation did not enter into any material contracts within the last financial year or remain a party to any material contracts it entered into prior to the last financial year which are still in effect.

## **INTERESTS OF EXPERTS**

As at the date hereof, to the knowledge of management of the Corporation, neither of GLJ and D&M, or the respective principals thereof, had any registered or beneficial interests, direct or indirect, in any securities or other property of the Corporation or its associates or affiliates either at or to be received after the time they prepared the respective reports, valuations or statements the Corporation included in the filings it made under National Instrument 51-102 – *Continuous Disclosure Obligations* or NI 51-101 during or related to the most recently completed financial year.

Deloitte LLP have advised that they are independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **ADDITIONAL INFORMATION**

Additional information about the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Shares and securities authorized for issuance under equity compensation plans, is contained in the Corporation's Management Information Circular for the most recent annual meeting of Shareholders that involved the election of directors (being, at the date of the AIF, the Management Information Circular dated May 16, 2014 for the Annual General and Special Meeting of Shareholders held on June 25, 2014).

Additional financial information is provided in our financial statements and management's discussion and analysis for the year ended December 31, 2014. Documents affecting the rights of securityholders, along with other information relating to the Corporation, may be found on the Corporation's website at <http://www.sunshineoilsands.com>.

**SCHEDULE “A”  
INDEPENDENT EVALUATOR REPORTS**

**FORM 51-101F2  
REPORT ON RESERVES DATA  
BY  
INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR**

To the board of directors of Sunshine Oilsands Ltd. (the “**Company**”):

1. We have evaluated the Company’s reserves data as at December 31, 2014. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2014, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “**COGE Handbook**”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2014, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

<b>Independent Qualified Reserves Evaluator</b>	<b>Description and Preparation Date of Evaluation Report</b>	<b>Location of Reserves (Country or Foreign Geographic Area)</b>	<b>Net Present Value of Future Net Revenue (before income taxes, 10% discount rate – MM\$)</b>			
			<b>Audited</b>	<b>Evaluated</b>	<b>Reviewed</b>	<b>Total</b>
GLJ Petroleum Consultants	Corporate Summary March 2, 2015	Canada	-	650	-	650

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, dated March 5, 2015.

*Caralyn P. Bennett*, P. Eng.  
Vice President

**REPORT ON RESOURCES DATA  
BY  
INDEPENDENT QUALIFIED RESERVES  
EVALUATOR OR AUDITOR**

To the board of directors of Sunshine Oilsands Ltd. (the "Company"):

1. We have prepared an evaluation of the Company's resources data as at December 31, 2014. The resources data are estimates of low, best and high estimates of contingent and prospective resources and related future net revenue as at December 31, 2014, estimated using forecast prices and costs.
2. The resources data are the responsibility of the Company's management. Our responsibility is to express an opinion on the resources data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the resources data are free of material misstatement. An evaluation also includes assessing whether the resources data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue of the Company (before deduction of income taxes) attributed to best estimate contingent resources and best estimate prospective resources, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated by us for the year ended December 31, 2014, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator and Resource Category	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate – MM\$)			
			Audited	Evaluated	Reviewed	Total
<b><u>Contingent Resources</u></b>						
GLJ Petroleum Consultants	Corporate Summary March 2, 2015	Canada	-	3,432	-	3,432
<b><u>Prospective Resources</u></b>						
GLJ Petroleum Consultants	Corporate Summary March 2, 2015	Canada	-	342	-	342

5. In our opinion, the resources data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the resources data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that resources are categorized according to the probability of their recovery.
8. Contingent resources evaluated in this report were assigned in regions with lower core-hole drilling density than the reserve regions and are outside current areas of application for development. These resource estimates are not classified as reserves at this time, pending further reservoir delineation, project application, facility and reservoir design work. Contingent resources entail commercial risk not applicable to reserves, which have not been

included in the net present valuation. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

9. Prospective resources were assigned in unexplored regions of the Company's acreage. Prospective resources entail commercial risk not applicable to reserves and contingent resources, which have not been included in the net present valuation. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, dated March 5, 2015.

*Caralyn P. Bennett*, P. Eng.  
Vice President

**REPORT ON RESOURCES DATA  
BY  
INDEPENDENT QUALIFIED RESERVES EVALUATOR  
CONTINGENT RESOURCES  
NET PRESENT VALUE OF FUTURE NET REVENUE**

To the board of directors of Sunshine Oilsands Ltd. (the "Company"):

1. We have prepared an evaluation of the Company's resources data as at December 31, 2014. The resources data are estimates of Low, Best, and High estimates of contingent resources and related future net revenue, estimated using forecast prices and costs.
2. The resources data are the responsibility of the Company's management. Our responsibility is to express an opinion on the resources data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the resources data are free of material misstatement. An evaluation also includes assessing whether the resources data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the net present value of future net revenue of the Company (before and after deduction of income taxes) attributed to low, best and high estimates of contingent resources, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated by us for the year ended December 31, 2014, and identifies the respective portions thereof that we have evaluated and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Resources (Country or Foreign Geographic Area)	Estimated Company Share Net Present Value of Future Net Revenues of Contingent Resources <sup>(1)</sup>		
			Before income tax, 10% discount rate		
			Low Estimate MM\$	Best Estimate MM\$	High Estimate MM\$
DeGolyer and MacNaughton Canada Limited	Report as of December 31, 2014 on the Contingent Resources attributable to Certain Bitumen Accumulations owned by Sunshine Oilsands Ltd. in Canada dated March 3, 2015	Canada	1,371	3,207	7,787
			After income tax, 10% discount rate		
			Low Estimate MM\$	Low Estimate MM\$	Low Estimate MM\$
			794	2,309	5,780

Notes:

- (1) Estimated Company Share Net Present Value of Future Net Revenue of Contingent Resources include the Company's Participating Interest in the Goffer-Carbonate, Harper-Clastic, Muskwa-Carbonate, Muskwa/Godin-Clastic, Portage-Carbonate, and Portage-Clastic areas after deductions of royalties payable to others.

5. In our opinion, the resources data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the resources data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.



7. Because the resources data are based on judgments regarding future events, actual results will vary and the variations may be material.
8. Contingent resources evaluated in this report were assigned in regions with lower core-hole drilling density than the reserve regions and are outside current areas of application for development. These resource estimates are not classified as reserves at this time, pending further reservoir delineation, project application, facility and reservoir design work. Contingent resources entail commercial risk not applicable to reserves, which have not been included in the net present valuation. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

EXECUTED as to our report referred to above:

DeGolyer and MacNaughton Canada Limited., Calgary, Alberta, dated March 3, 2015.

*Nahla R. Boury*, P. Eng.

**CONTINGENT RESOURCE ESTIMATES  
BY  
INDEPENDENT QUALIFIED RESERVES  
EVALUATOR OR AUDITOR**

To the board of directors of Sunshine Oilsands Ltd. (the "**Company**"):

1. We have prepared an evaluation of the Company's resources data as at December 31, 2014. The resources data are estimates of Low, Best, and High estimates of contingent resources and related future net revenue, estimated using forecast prices and costs.
2. The resources data are the responsibility of the Company's management. Our responsibility is to express an opinion on the resources data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the resources data are free of material misstatement. An evaluation also includes assessing whether the resources data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated net present value of future net revenue of the Company (before and after deduction of income taxes) attributed to low, best and high estimates of contingent resources, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated by us for the year ended December 31, 2014, and identifies the respective portions thereof that we have evaluated and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Resources (Country or Foreign Geographic Area)	Estimated Company Share of Contingent Resources <sup>(1)</sup>		
			Bitumen		
			Low Estimate Mbbl	Best Estimate Mbbl	High Estimate Mbbl
DeGolyer and MacNaughton Canada Limited	Report as of December 31, 2014 on the Contingent Resources attributable to Certain Bitumen Accumulations owned by Sunshine Oilsands Ltd. in Canada dated March 3, 2015	Canada	1,112,548	1,671,346	5,106,054

Notes:

- (1) Estimated Company Share Net Present Value of Future Net Revenue of Contingent Resources include the Company's Participating Interest in the Goffer-Carbonate, Harper-Clastic, Muskwa-Carbonate, Muskwa/Godin-Clastic, Portage-Carbonate, and Portage-Clastic areas after deductions of royalties payable to others.
5. In our opinion, the resources respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the resources data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the resources data are based on judgments regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

DeGolyer and MacNaughton Canada Limited., Calgary, Alberta, dated March 3, 2015.

*Nahla R. Boury, P. Eng.*

**SCHEDULE “B”  
FORM 51-101F3**

**REPORT FROM MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE**

Management of Sunshine Oilsands Ltd. (the “**Corporation**”) is responsible for the preparation and disclosure of information with respect to the (Corporation’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves and resources data which are estimates of both the volumes and values of our proved, proved plus probable, proved plus probable plus possible reserves as well as low, best, high estimate contingent resources and related future net revenue as at December 31, 2014, estimated using forecast prices and costs, however, none of the volumes or values of our resources have been risked for chance of development.

Independent Qualified Reserves Evaluators have evaluated and reviewed the Corporation’s reserves and resources data. The reports of the Independent Qualified Reserves Evaluators will be filed with the securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Corporation has:

- (a) reviewed the Corporation’s procedures for providing information to the Independent Qualified Reserves Evaluators;
- (b) met with the Independent Qualified Reserves Evaluators to determine whether any restrictions affected the ability of the Independent Qualified Reserves Evaluators to report without reservation; and
- (c) reviewed the reserves and resources data with management and the Independent Qualified Reserves Evaluator.

The Reserves Committee of the board of directors has reviewed the Corporation’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of the AIF containing reserves, resources data and other oil and gas information;
- (b) the filing of the reports of the Independent Qualified Reserves Evaluators on the reserves and resources data; and
- (c) the content and filing of this report.

Because the reserves and resources data are based on judgements regarding future events, actual results will vary and the variations may be material.

Dated effective March 26, 2015.

(signed) “*Michael Hibberd*”

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**Michael Hibberd**  
**Director and Executive Vice Chair of the Board**  
**acting in the capacity of the Chief Executive Officer**

(signed) “*Qi Jiang*”

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**Qi Jiang**  
**President and Chief Operating Officer**

(signed) “*Gerald F. Stevenson*”

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**Gerald F. Stevenson**  
**Director**

(signed) “*Raymond S. Fong*”

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**Raymond S. Fong**  
**Director**

**SCHEDULE “C”  
AUDIT COMMITTEE CHARTER**

**SUNSHINE OILSANDS LTD.**

**1. The Board of Directors’ Mandate for the Audit Committee**

**(a) Purpose**

The Audit Committee (the “**Audit Committee**”) is a committee of non-executive directors appointed by the Board of Directors of the Corporation (the “**Board of Directors**”). The Audit committee’s mandate is, inter alia, to provide assistance to the Board of Directors in fulfilling its financial reporting and control responsibility to the shareholders and the investment community. The committee is, however, independent of the Board of Directors and the Corporation and in carrying out their role shall have the ability to determine its own agenda and any additional activities that the Audit Committee shall carry out.

**(b) Composition of Committee**

- (a) The Committee will be comprised of at least three non-executive directors of the Corporation, all of whom will be financially literate. In addition, at least one member of the Audit Committee shall have accounting or related financial expertise as such qualifications are interpreted by the Board of Directors in accordance with rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). A majority of the members of the Committee must also be “independent” in accordance with the Listing Rules. A “financially literate” director is a director who has the ability to read and understand a set of financial instruments that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.
- (b) Unless otherwise designated by the Board, the members of the Committee shall elect a Chairperson (the “**Chair**”) from among the independent non-executive directors present and the Chair shall preside at all meetings of the Committee.

**(c) Reliance on Experts**

In contributing to the Committee’s discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with GAAP consistently applied; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

**(d) Limitations on Committee's Duties**

In contributing to the Committee's discharging of its duties under the Terms of Reference (defined at II below), each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in the Terms of Reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to endeavour to gain reasonable assurance (but not to ensure) that the relevant activities are being conducted effectively and that the objectives of the Corporation's financial reporting are being met and to enable the Committee to report thereon to the Board.

**2. Audit Committee Terms of Reference**

The Audit Committee's Terms of Reference (the "**Terms of Reference**") outline how the Committee will satisfy the requirements set forth by the Board in its mandate. Terms of Reference reflect the following:

- operating principles;
- operating procedures; and
- specific responsibilities and duties.

**(a) Operating Principles**

The Committee shall fulfill its responsibilities within the context of the following principles:

**(i) Committee Values**

The Committee expects the management of the Corporation to operate in compliance with corporate policies, reflecting laws and regulations governing the Corporation and to maintain strong financial reporting and control processes.

**(ii) Communications**

The Committee and members of the Committee expect to have direct, open and frank communications throughout the year with management, other Committee Chairpersons, the external auditors, and other key Committee advisors or Corporation staff members as applicable.

**(iii) Financial Literacy**

All Committee members should be sufficiently versed in financial matters to read and understand the Corporation's financial statements and also to understand the Corporation's accounting practices and policies and the major judgments involved in preparing the financial statements.

**(iv) Annual Audit Committee Work Plan**

The Committee, in consultation with management and the external auditors, shall develop an annual Committee work plan responsive to the Committee's responsibilities as set out in these Terms of Reference. In addition, the Committee, in consultation with management and the external auditors, shall participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Corporation. However, the Committee may at its sole discretion, or the discretion of the Board, review such other matters as may be necessary to satisfy the Committee's Terms of Reference.

**(v) Meeting Agenda**

Committee meeting agendas shall be the responsibility of the Chair in consultation with Committee members, senior management and the external auditors and shall be circulated on a timely basis prior to the Committee meetings.

**(vi) Committee Expectations and Information Needs**

The Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the external auditors at a reasonable time in advance of meeting dates.

**(vii) External Resources**

To assist the Committee in discharging its responsibilities, the Committee may at its discretion, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise, including independent counsel.

**(viii) In Camera Meetings**

At the discretion of the Committee, the members of the Committee shall meet in private sessions with the external auditors.

**(ix) Reporting to the Board**

The Committee, through its Chair, shall report after each Committee meeting to the Board at the Board's next regular meeting.

**(x) Committee Self-Assessment**

The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

**(xi) The External Auditors**

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall report directly to and be accountable to the Board through the Committee. The external auditors shall report all material issues or potentially material issues, either specific to the Corporation or to the financial reporting environment in general, to the Committee.

**(b) Operating Procedures**

- A. The Committee shall meet at least four times annually, or more frequently (if any) as circumstances dictate. At least once a year the Committee shall meet with the external and internal auditors without executive Board members present.
- B. Meetings shall be held at the call of the Chair, upon the request of two members of the Committee or at the request of the external auditors.
- C. A quorum shall be a majority of the Committee members and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the Board unless otherwise determined by the Committee or the Board.

- D. At all meetings of the Committee every question shall be decided by a majority of the votes cast, with each member of the Committee, including the Chair, having one vote, and with the Chair having no tie breaker vote.
- E. The Chair shall preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee present shall designate from among the independent non-executive directors the Chair for the purposes of the meeting.
- F. A member or members of the Committee may participate in Committee meetings by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
- G. Unless the Committee otherwise specifies, the secretary of the Corporation (or his or her deputy), or such other person as designated by the Committee shall act as the secretary (the "Secretary") of all meetings of the Committee.
- H. Minutes of the Committee will be maintained by the Secretary and made available to each director of the Corporation as soon as practicable following a Committee meeting.

(c) **Specific Responsibilities and Duties**

The specific responsibilities and duties of the Committee include:

(i) **Financial Reporting:**

- (a) review, prior to public release, the Corporation's annual and quarterly financial statements with management and, to the extent required, the external auditors. In its review of such financial statements the Committee shall focus in particular on:

any changes in accounting policies and practices;

major judgemental areas;

significant adjustments resulting from the audit or review;

the going concern assumption;

compliance with accounting standards; and

compliance with stock exchange and legal requirements.

The Committee shall report thereon to the Board before such financial statements are approved by the Board;

- (b) receive from the external auditors reports of their audit of the annual financial statements and if the auditors are engaged, their reviews of the quarterly financial statements;
- (c) review, prior to public release, and, if appropriate, recommend approval to the Board, of news releases and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements;



- (d) review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analyses, annual information forms and similar disclosure documents to be issued by the Corporation;
- (e) assess whether the Corporation's accounting policies are being adequately disclosed in the Corporation's financial reporting;
- (f) review and validate procedures for the receipt, retention and resolution of complaints received by the Corporation from any party regarding accounting, auditing or internal controls. For greater certainty, the Committee's responsibilities in this area will not include complaints about minor operational issues. Examples of minor operational issues include late payment of invoices, minor disputes over accounts owing or receivable, revenue and expense allocations and other similar items characteristic of the normal daily operations of the accounting department of an oil and gas corporation;

**(ii) Accounting Policies:**

- (a) review with management and the external auditors the appropriateness of the Corporation's financial and accounting policies and practices, disclosures, reserves, key estimates and judgments, including changes or variations thereto;
- (b) obtain reasonable assurance that the Corporation's accounting policies are in compliance with GAAP consistently applied from management and external auditors and report thereon to the Board;
- (c) review with management and the external auditors the apparent degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and provisions along with quality of financial reporting; and
- (d) participate, if requested, in the resolution of disagreements, between management and the external auditors;

**(iii) Risk and Uncertainty:**

- (a) acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled;
- (b) review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- (c) review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;
- (d) review the adequacy of insurance coverages maintained by the Corporation; and
- (e) review regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements;

**(iv) Financial Controls and Control Deviations:**

- (a) review the plans of the external auditors to gain reasonable assurance that applicable internal financial controls are comprehensive, coordinated and cost effective;
- (b) receive regular reports from management and the external auditors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto;
- (c) institute a procedure that will permit any employee, including management employees, to bring to the attention of the Board, under conditions of confidentiality, concerns relating to financial controls and reporting which are material in scope and which cannot be addressed, in the employee's judgment, through existing reporting structures in the Corporation;
- (d) review and periodically assess the adequacy of controls over financial information disclosed to the public, which is extracted or derived from the Corporation's financial statements;
- (e) to review the Corporation's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (f) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Corporation's accounting and financial reporting function;
- (g) (where an internal audit function is in operation) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Corporation; and
- (h) to consider the major findings of internal investigations and management's response;

**(v) Compliance with Laws and Regulations:**

- (a) review regular reports from management and others (e.g. external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:
  - tax and financial reporting laws and regulations;
  - legal withholding requirements; and
  - other laws and regulations which expose directors to liability; and
- (b) review the filing status of the Corporation's tax returns;

**(vi) Relationship with External Auditors:**

- (a) recommend to the Board the appointment, re appointment and, if necessary, dismissal, of the external auditors;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- (c) approve the remuneration and the terms of engagement of the external auditors as set forth in the engagement letter and receive a copy of the finalized version of the engagement letter;
- (d) to review the external auditors management letter and management's response;
- (e) to ensure that the Board will provide a timely response to the issues raised in the external auditors management letter;
- (f) review the performance of the external auditors annually or more frequently as required;
- (g) receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services to the Corporation;
- (h) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, and the materiality levels which the external auditors propose to employ;
- (i) meet with the external auditors in the absence of management to determine, inter alia, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
- (j) establish effective communication processes with management and the Corporation's external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee; and
- (k) establish a reporting relationship between the external auditors and the Committee such that the external auditors can bring directly to the Committee matters that, in the judgment of the external auditors, merit the Committee's attention. In particular, the external auditors will advise the Committee as to disagreements between management and the external auditors regarding financial reporting and how such disagreements were resolved; and

**(vii) Other Responsibilities:**

- (a) approve annually the reasonableness of the expenses of the Chairpersons of the Board and the Chief Executive Officer;
- (b) after consulting with the Chief Financial Officer and the external auditors, to consider at least annually the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- (c) to develop and implement policy on the engagement of an external auditor to supply non audit services, including tax advisory and compliance services provided by the external auditors;
- (d) ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual;
- (e) investigate any matters that, in the Committee's discretion, fall within the Committee's duties;
- (f) perform such other functions as may from time to time be assigned to the Committee by the Board;
- (g) review and update the Terms of Reference on a regular basis for approval by the Board;

- (h) review disclosures regarding the organization and duties of the Committee to be included in any public document, including quarterly and annual reports to shareholders, information circulars and annual information forms; and
- (i) ensure that an appropriate code of conduct is in place and understood by employees and directors of the Corporation.

**March 19, 2015**