



# **SUNSHINE OILSANDS LTD.**

Annual Information Form

For the Year Ended December 31, 2012

**Dated March 26, 2013**

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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", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this 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 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;
- supply and demand fundamentals for crude oil, bitumen blend, natural gas, and condensate and other diluents and volatility in prices;
- 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:

- 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 of the Corporation's reserves and resources;
- operating costs;
- 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 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;
- 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;
- 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;
- Sunshine'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.**

## 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                       | bbls per day  | Mcf/d       | thousand cubic feet per day   |
| Mbbl                        | thousand bbls   | MMcf/d      | million cubic feet per day    |
| Mbbl/d                      | thousand bbls per day   | MMBTU       | million British Thermal Units |
| MMbbl                       | million barrels   | Bcf         | billion cubic feet            |
| MMbbl/d                     | million bbls per day  | GJ          | Gigajoule                     |
| NGLs                        | natural gas liquids   |             |                               |
| <b>Other</b>                |   |             |                               |
| 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 and 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;

“**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;

“**CHOPS**” 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;

“**contingent resources**” means quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies;

“**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**” or “**Cyclic Steam Stimulation**” 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 something;

“**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 diluents and bitumen;

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

“**dolomite**” means a rhomboidal calcium-magnesium carbonate mineral with the chemical formula  $\text{CaMg}(\text{CO}_3)_2$ ;

“**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 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. Permeability is measured in millidarcies;

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

“**PIIP**” means the quantity of petroleum initially in place that is estimated, as of a given date, to exist in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered. It is a measure that derived from an aggregation of the total reserves, contingent resources and prospective resources held by a person whether they are recoverable or unrecoverable;

“**porosity**” means the ratio of void space to the bulk volume of rock containing that void space. Porosity can be expressed as a fraction or percentage of pore volume in a volume of rock;

“**possible reserves**” means those quantities of petroleum which by analysis of geosciences and engineering data are less likely to be recoverable than probable reserves;

“**Primary Recovery Scheme**” means a plan using only the natural energy of the reservoir to recover oil. The main drive mechanisms for primary recovery are typically solution gas drive, gas cap drive and water (aquifer) drive;

“**probable reserves**” means those quantities of petroleum which by analysis of geosciences and engineering data are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves;

“**prospective resources**” means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoir and under defined economic conditions, operating methods and government regulations;

“**proved reserves**” means those quantities of petroleum, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations;

“**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;

“**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%;

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

“**Total PIIP**” means the sum of discovered and undiscovered PIIP components;

“**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 Western Canadian Select, 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;

“**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;

“**AMEC BDR**” means AMEC BDR Limited, a technical and engineering business and a subsidiary of Amec Plc.;

“**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;

“**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;

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

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

“**Crown**” means Her Majesty in the 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, and 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 reserve report prepared by D&M effective as of December 31, 2012;

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

“**ERCB**” means the Energy Resources Conservation Board;

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

“**GHG**” means Greenhouse gas;

“**GLJ**” means GLJ Petroleum Consultants Limited, 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 report prepared by GLJ effective as of December 31, 2012;

“**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**” or “**Investment Canada Act**” 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;

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

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

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

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

“**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;

“**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;

“**Orient Financial**” means Orient Financial Holdings Limited, a company incorporated under the laws of Hong Kong on July 2, 2002;

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

“**PNG License**” 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*, Alta Reg 196/2010, on a primary or a continued basis;

“**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;

“**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 (the “**2007 Share Option Plan**”) and the stock option plan approved and adopted by the Corporation on May 7, 2009 and amended on June 13, 2010 (the “**2009 Share Option Plan**”);

“**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, 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 Schemes;

“**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 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*;

“**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, 2012, 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*”.

## 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 3300, 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 January 26, 2012, Sunshine held its annual general and special meeting of shareholders wherein the Shareholders approved, among others, the amendment of the Articles to allow for a share split of the Common Shares and the Preferred Shares on an up to 25 for 1 basis. 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**”).

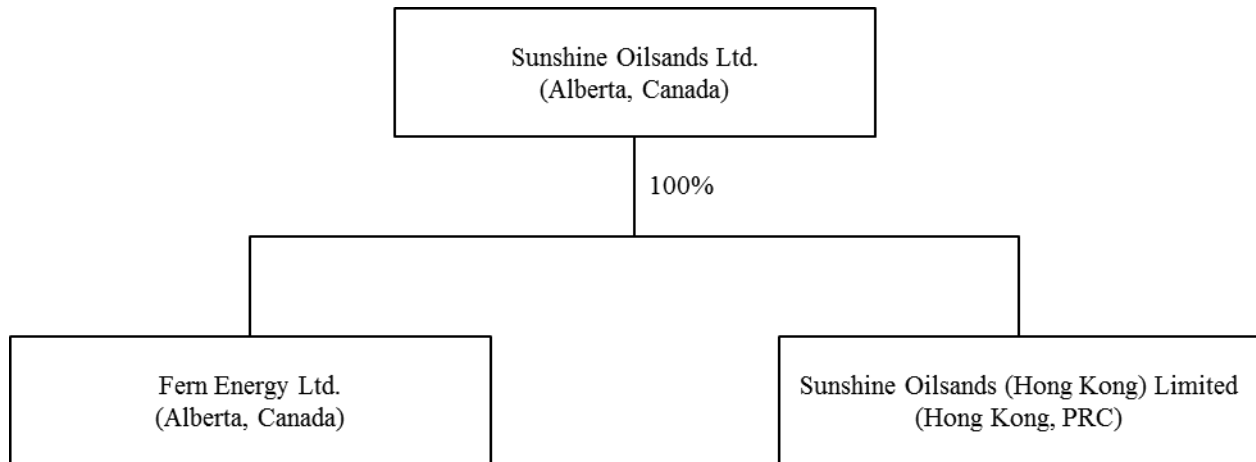
On February 28, 2012, the Corporation amended its Articles to increase the maximum number of directors of the Corporation from ten to fifteen, amended the retraction rights available to the holders of the Class “G” Shares and the Class “H” Shares, removed the voting rights available to the holders of 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 Hong Kong Stock Exchange 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.

## INTERCORPORATE RELATIONSHIPS

As at the date of this AIF, the corporate structure of the Corporation is as follows:



## 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:

#### 2010

In 2010, the Corporation acquired eleven Oil Sands Leases and one PNG Licence through Crown Land Sales. The acquired Oil Sands Leases consisted of one Oil Sands Lease (18 sections or 4,662 hectares) at Godin, five Oil Sands Leases (102.65 sections or 26,586 hectares) at Muskwa, one Oil Sands Lease (four sections or 1,036 hectares) at Opportunity, one Oil Sands Lease (seven sections or 1,813 hectares) at Portage, three Oil Sands Leases (1.5 sections or 389 hectares) at West Ells and one PNG Licence (36 sections or 9,324 hectares).

Between January 29, 2010 and May 31, 2010, Sunshine completed a non-brokered private placement of a total of 278,264,360 units at a price of \$0.30 per unit, where each unit consisted of one Share and one-half a purchase warrant for aggregate gross proceeds of \$83,479,308. Each purchase warrant had an exercise price of \$0.40 and was exercisable until February 28, 2013. Sunshine granted 12,499,920 fee warrants to two finders in connection with the above financing. Each fee warrant had an exercise price of \$0.30 and is exercisable from February 28, 2013 to May 26, 2013. Gross proceeds from the above financings were used to acquire land at a number of Crown Land Sales and to fund the delineation of the Corporation's existing lands.

On March 2, 2010, Sunshine announced the appointment of Mr. Hok Ming Tseung to the Corporation's Board of Directors.

Between April 1, 2010 and May 17, 2010, Sunshine completed a non-brokered private placement of a total of 11,780,080 Shares, issued on a "flow-through" basis at a price of \$0.33 per Share for aggregate gross proceeds of \$3,828,526.

On December 31, 2010, Sunshine completed a non-brokered private placement of 11,215,000 special warrants, issued on a "flow-through" basis at a price of \$0.50 per special warrant, where each special warrant entitled the holder to acquire one Share for no additional consideration until January 20, 2011 for aggregate gross proceeds of \$5,607,500.



**2011**

On February 1, 2011, Sunshine announced the appointment of Mr. Tingan Liu to the Corporation's Board of Directors.

On February 14, 2011, Sunshine announced the appointment of Mr. Haotian Li to the Corporation's Board of Directors.

In 2011, the Corporation acquired fourteen Oil Sands Leases through Crown Land Sales. The acquired Oil Sands Leases consisted of one Oil Sands Lease (16 sections or 4,144 hectares) at Godin, five Oil Sands Leases (77 sections or 19,943 hectares) at Muskwa, three Oil Sands Leases (10 sections or 2,590 hectares) at Portage, three Oil Sands Leases (three sections or 777 hectares) at West Ells and two Oil Sands Leases (13.3 sections or 3,444 hectares) at Pelican.

Between January 31, 2011 and February 15, 2011, Sunshine completed a non-brokered private placement of a total of 289,256,200 Shares at a price of \$0.48 per Share and 144,628,100 Class "B" Share at a price of \$0.48 per Class "B" Share for aggregate gross proceeds of \$210,000,001. The Corporation granted 21,694,220 fee warrants to Far East Enterprise Investment Foundation Limited in connection with the above financing. Each such fee warrant has an exercise price of \$0.48 and is exercisable until February 2014.

Between February 17, 2011 and February 22, 2011, Sunshine completed a non-brokered private placement of a total of 15,432,780 Shares at a price of \$0.48 per Share for aggregate gross proceeds of \$7,469,466, and a non-brokered private placement of a total of 13,370,820 Shares, issued on a "flow-through" basis, at a price of \$0.53 per Share for aggregate gross proceeds of \$7,119,962.

On July 15, 2011 and July 18, 2011, Sunshine announced the appointment of Mr. Gerald Stevenson and Mr. Robert Herdman, respectively, to the Corporation's Board of Directors.

In September 2011, in conjunction with the Corporation's preliminary prospectus filing for an IPO and pursuant to certain conditions and requirements of this filing for a public listing on the SEHK, the Corporation, through its independent directors, commenced negotiations with significant warrant holders, who are also shareholders of the Corporation, to repurchase and cancel all issued and outstanding purchase and fee warrants. The reference price for the repurchase of all warrants was determined by a committee of independent directors of the Corporation.

On December 20, 2011, the Corporation announced the appointment of Mr. John Zahary as its President and Chief Executive Officer.

**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 from the ERCB 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, 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. The parties intend 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. The memorandum of understanding is non-binding and terminates on December 31, 2013, unless extended.

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**"). The Credit Facility matures on October 10, 2013 and is extendable at the lenders' discretion. The amount available for drawdown is subject to a sufficient funding requirement which is defined as having on-hand funding equal to or exceeding the sum of the remaining costs to complete the Phase 1 and Phase 2 West Ells project plus a contingency amount equal to 20% of remaining costs to complete. In conjunction with the closing of the Credit Facility, the Corporation terminated its \$100 million Orient Credit Facility.

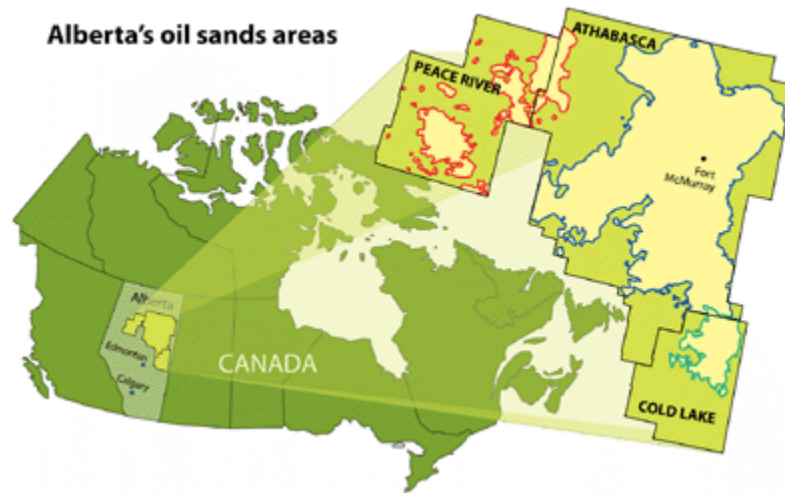
On November 16, 2012, the Common Shares of the Corporation commenced trading on the TSX under the symbol "SUO".

On November 20, 2012, Sunshine announced the appointment of Mr. Robert Pearce as Senior Vice President Finance and Chief Financial Officer of the Corporation.

## 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 Pelican, 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 169 billion bbls of estimated resources. The Canadian oil sands are the largest single source of supply of oil imported into the United States.



Source: ERCB

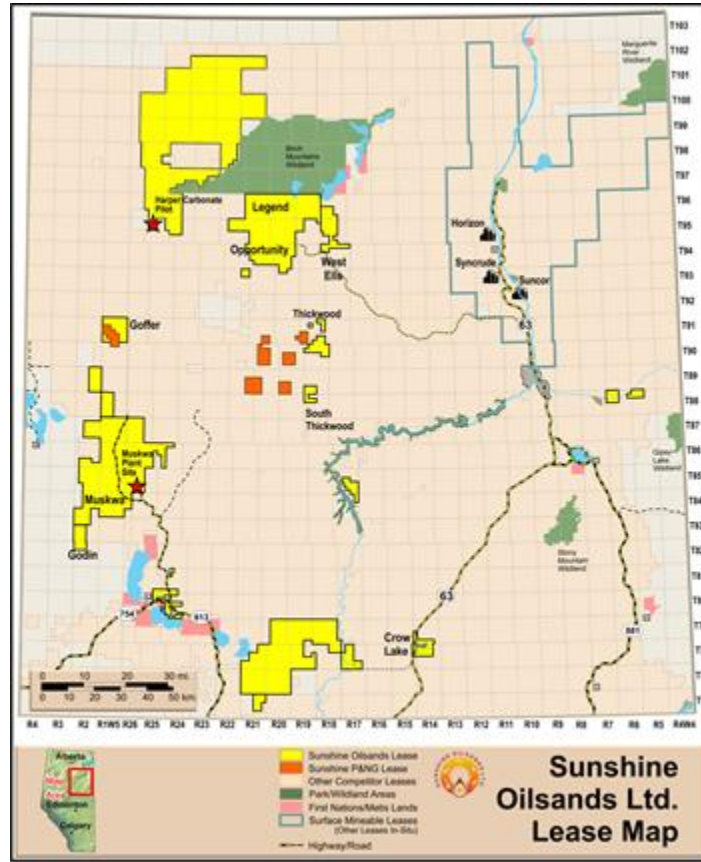
Sunshine holds very large oil sands resources, with approximately 70 billion bbls of Total PIIP. Sunshine is focused on development of these assets with the first phase of a 10,000 bbl/d project currently under construction at West Ells, scheduled for first steam in the third quarter of 2013. Sunshine is also progressing regulatory approvals for two additional 10,000 bbl/d (total 20,000 bbl/d) projects at Thickwood and Legend. Approvals for Thickwood are expected in the first half of 2013, with approval for Legend later in 2013. 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 5.1 billion bbls of contingent resources and 446 million bbls of proved plus probable reserves, Sunshine has significant commercial development potential. In addition, Sunshine has recently updated its commercial development plans in the West Ells, Thickwood and Legend areas and is now targeting 300,000 bbl/d of production from these areas, representing a 50% increase in previously announced commercial production targets.

### Oil Sands Leases

We hold over 1.1 million acres (over 0.4 million hectares) of leases (including our Oil Sands Leases and our PNG 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 substantially all of these leases. 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 9,856 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.

The bitumen reservoir at West Ells is contained in the Wabiskaw member of the Clearwater formation, which is a clastic reservoir. In the December 31, 2012 resource assessment, GLJ has assigned an estimated 78 million barrels of proved reserves, 141 million barrels of proved plus probable reserves and 655 million barrels 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 is currently under construction with first steam expected in the third quarter of 2013. In support of this project, a 55 kilometer road extension into the West Ells asset area was completed in September 2012 in cooperation

with a third party industry participant. In addition, during 2012, the Corporation acquired strategic infrastructure in the West Ells area, including water supply, gas supply, roads, work camps, and other facilities. Significant progress was made in civil and mechanical construction, and SAGD drilling.

The total capital cost of West Ells continues to be estimated at approximately \$468 million, excluding road construction costs. First steam for Phase 1 is expected in the third quarter of 2013, with initial production anticipated in early 2014. Phase 1 West Ells is designed to produce 5,000 bbl/d of bitumen followed by an expansion for an additional 5,000 bbl/d from Phase 2 targeted to be complete in early 2014.

The initial West Ells 10,000 bbl/d facility represents a 5th generation SAGD plant, using proven technology for the surface facilities.

The Corporation plans to complete the following key project activities in 2013: drilling and completions of remaining SAGD wellpairs; fabrication; pilings; mechanical and electrical installation; final commissioning; and commence SAGD start-up operations.

For the year ended December 31, 2012, \$200.5 million has been incurred for West Ells equipment, engineering, construction, civil works, drilling, completions and other project related expenditures.

Sunshine plans to develop the West Ells asset area using a staged development strategy. Phase 1 and 2 are expected to provide the initial 10,000 bbl/d of the Corporation's 300,000 bbl/d development plan in the clastics. Sunshine plans 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 is completing engineering efforts in support of commercial applications planned for later in 2013.

### **Thickwood**

The Thickwood region consists of Oil Sands Leases covering 5,888 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 December 31, 2012 independent resource assessment shows an estimate 163 million bbls of proved plus probable reserves and 341 million bbls 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 exploitable using SAGD technology.

### ***Project Development***

The Corporation filed an application for regulatory approval for the first 10,000 bbl/d project in October 2011. Through 2012, two rounds of supplemental information responses ("**SIRs**") were provided to regulators. Full regulatory approval is anticipated by mid-2013. In anticipation of this, the Corporation has also completed a design basis memorandum and is progressing front end engineering design ("**FEED**") for the project.

The Thickwood area will also be developed in phases in order to control costs, implement improvements in recovery technologies and improve efficiency. Initial production from the 10,000 bbl/d facility is anticipated in 2015. As part of the progression to meet this milestone, the Corporation is progressing FEED engineering and civil design efforts to allow field work to be initiated following regulatory approval

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. In support of this, the Corporation has progressed environmental field work and is completing engineering efforts in support of commercial applications planned for 2013.

## **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 December 31, 2012 independent resource assessment shows an estimate 137 million barrels of proved plus probable reserves and 484 million barrels 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 exploitable using SAGD technology.

### ***Project Development***

On November 25, 2011, the Corporation filed an application for regulatory approval for the first 10,000 BBL/D SAGD Project at Legend. During 2012, Sunshine responded to the initial round of SIR's from the regulators. First steam is expected in 2016. In anticipation of this, the Corporation has progressed engineering design efforts for the project.

Sunshine estimates there is an ultimate development potential of over 100,000 bbls of bitumen per day 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. In order to realize this potential, the Corporation is progressing with environmental field work, drilling a number of exploratory and development locations, and shooting and processing several kilometers of 2D seismic in the 2012/2013 field season. This data will support the filing of commercial applications that are planned for later in 2013. Future development of the Legend area will be achieved through phases to control costs, implement improvements in recovery technologies and capture efficiencies.

### **2012/2013 Winter Drilling Program**

With the exception of the Muskwa conventional heavy oil project and West Ells commercial project, our assets are currently only accessible for evaluation and delineation drilling in the frozen conditions prevalent in the Athabasca region during winter.

As at the date of this AIF, the 2012/2013 winter drilling program was completed. This program included evaluation drilling, coring operations, water production testing and progression of the West Ells project, including observation and SAGD well drilling.

### **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 have been assigned substantial contingent resources, as described below, and are not subject to near term expiry issues.

### **Carbonates**

The Corporation's land base includes a significant bitumen resource in the carbonates, with resources in six different horizons. Independent resource evaluations have attributed best estimate contingent resources of 529 million bbls to the Grosmont and Leduc, and 816 million bbls in the Upper Ireton, Nisku, Blueridge, and Wabamun formations. These resources are located in five main project areas; Harper, Ells, Portage, Goffer and Muskwa.

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

on optimizing recovery techniques and development planning. Sunshine is targeting approximately 2018 for first commercial production from the carbonates.

### ***Location and Size***

The Harper area contains a total of 694 contiguous sections of which 250 sections include bitumen carbonate resource in the Grosmont Formation. Independent resource evaluation has attributed 371 million bbls of contingent best estimate resources to this area. 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 12 miles north of Shell Canada's significant oil sands leases in Townships 95 to 98, 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 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 2 miles 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. Independent resource evaluation indicates 158 million bbls of best estimate contingent resource to the Corporation's Ells Leduc carbonates.

The Corporation also holds significant resource in the Portage, Goffer and Muskwa areas, in the Upper Ireton, Nisku, Blueridge, and Wabamun formations. Independent resource evaluation indicates 816 million bbls of best estimate contingent resource from these areas.

The Portage region consists of 291 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 38 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. 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. The Corporation is targeting first production from the carbonates in the 2018 timeframe.

## **Conventional Heavy Oil**

We have 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, will 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 we have executed several stages of preliminary exploration and development spending. We have demonstrated sustained production from several well types, including horizontal, slant and vertical wells and continue to evaluate methods to enhance recovery.

Our Muskwa property began producing in September 2010. As at the date of this AIF, we have not recognized 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.

## **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. 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. According to our current development schedule, we expect the West Ells, Thickwood and Legend 10,000 bbl/d production capacities in place by 2014, 2015 and 2016 respectively.

We shared the total cost of our all season road with an industry partner who contributed 50%. 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. In September 2012, Sunshine submitted a *Water Act* licence application to utilize the Viking Formation. The draft approval was received from AESRD in March 2013 and is currently under review by the Corporation. We understand that, under the *Water Act*, the AESRD has the discretion to require that additional security requirements be imposed pursuant to the requirements set out by the regulations. To date, no regulations have been enacted that address additional security requirements for water licences. There is also no royalty or fee owed to the Crown for water usage. Having consulted with our Canadian legal advisers, we anticipate no issues or complications with obtaining the water licence nor any issues with the ongoing utilisation of this water source.

As we have yet to commence SAGD operations, we currently do not require water for operations. 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. We are conducting drilling and water deliverability testing during the 2012/2013 winter season.

### ***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 procure natural gas from Alberta's extensive and sophisticated network of natural gas delivery systems and suppliers. A main natural gas trunk line, operated by TransCanada Corporation, transects the West



Ells leases. We have draft delivery agreements with a supplier and distributor that contemplate delivery of the natural gas required for West Ells' steaming and power generation. We expect to utilize short term and long term contracts to guarantee long term supply following the expansion of the local supply system and our entry into long term purchase contracts.

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

We have worked with AMEC BDR to estimate facility costs and the feasibility of cogeneration. We plan 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. The cogeneration units may also be tied into the system power line to sell surplus power to the grid when it is established in the project area. In addition, we expect the system power line will provide the electricity backup for SAGD operations

Over time, as commercial projects for bitumen extraction are established in the region, we anticipate fixed power distribution lines, tied to the provincial power grid, will be constructed in the local area. Critical demand levels are required to trigger the utility company to allocate capital for new distribution lines. Alternatively, oil sands and other industrial operators may be able to establish industrial distribution lines by paying 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 returning from the delivery of blended dilbit will be loaded with appropriate amounts of condensate 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 one of the various condensate hubs in Alberta. We anticipate diluents for future project phases will come from various potential suppliers. As we have yet to commence SAGD operations, we do not currently require diluent and we have not entered any long term supply agreements.

### **Production Economics for Clastic Assets**

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

We anticipate that our bitumen will be sold as a blend. Blend production from Alberta is primarily sold to refineries in Canada, the Midwest (PADD II) and Rocky Mountains (PADD IV) in 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, transportation and diluent costs.

#### ***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 owing to the increased processing and lower value associated with the refining of bitumen blends.

Bitumen revenue depends on the cost of diluent and the blending ratio required to create bitumen blend. We are currently planning to use condensate as diluent at a ratio of 0.3 barrel of condensate per barrel of bitumen for trucked volumes and a ratio 0.43 for pipeline volumes. The price of condensate 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 condensate 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 is based on net revenue – it 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, 2012, Sunshine had 83 full time employees. Employee numbers increased across all its areas of operation, particularly in its geology, drilling and operations departments, due to increased activity levels associated with West Ells, Thickwood and Legend SAGD developments. Sunshine expects to substantially increase its number of employees over the next several years in order to support and staff its development plans.

## **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 is partnering with China Investment Corporation, sovereign wealth fund of China, on evaluating the opportunity. The parties intend 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. We believe that a relationship with SIPC will assist in the implementation of this strategy.

However, 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. The memorandum of understanding is non-binding and terminates on December 31, 2013, unless such term is extended by the parties mutual agreement in writing.

## 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, 2012.

The GLJ Report was prepared on February 25, 2013. The D&M Report was prepared on February 28, 2013.

- **GLJ Report** – GLJ evaluated the Corporation's assets at WestElls, Thickwood, Legend, Opportunity, East Long Lake, Crow Lake, Harper (carbonate only) and Ells Leduc.
- **D&M Report** – D&M evaluated the Corporation's assets at Pelican Lake, 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 Reserves Data by Independent Qualified Reserves Evaluator or Auditor and 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 compliance 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 reserves have been assigned by GLJ to Sunshine's approved and currently under construction West Ells first phase 10,000 bbl/d development. D&M assigned proved reserves to ongoing heavy oil development at Muskwa. Probable reserves have been assigned by GLJ to Thickwood and Legend first phase 10,000 bbl/d developments for which regulatory applications have been made.

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

### 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, 2012 as evaluated by GLJ and D&M. 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, 2012

| Reserves Category                        | Bitumen       |             | Heavy Oil     |             |
|--|---------------|-------------|---------------|-------------|
|  | Gross (Mbbbl) | Net (Mbbbl) | Gross (Mbbbl) | Net (Mbbbl) |
| PROVED                                   |               |             |               |             |
| Producing                                | -             | -           | 830           | 776         |
| Developed Non-producing                  | -             | -           | 155           | 145         |
| Undeveloped                              | 77,546        | 63,769      | 1,467         | 1,372       |
| TOTAL PROVED                             | 77,546        | 63,769      | 2,452         | 2,293       |
| TOTAL PROBABLE                           | 363,489       | 295,643     | 2,421         | 2,228       |
| TOTAL PROVED PLUS PROBABLE               | 441,035       | 359,412     | 4,873         | 4,521       |
| TOTAL POSSIBLE                           | 156,994       | 115,275     | 2,191         | 1,990       |
| TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE | 598,029       | 474,687     | 7,064         | 6,511       |

| Reserves Category                        | Total Oil Equivalent |            |
|--|----------------------|------------|
|  | Gross (Mboe)         | Net (Mboe) |
| PROVED                                   |                      |            |
| Producing                                | 830                  | 776        |
| Developed Non-producing                  | 155                  | 145        |
| Undeveloped                              | 79,013               | 65,141     |
| TOTAL PROVED                             | 79,998               | 66,062     |
| TOTAL PROBABLE                           | 365,910              | 297,871    |
| TOTAL PROVED PLUS PROBABLE               | 445,908              | 363,933    |
| TOTAL POSSIBLE                           | 159,185              | 117,265    |
| TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE | 605,093              | 481,198    |

## Net Present Value Summary

| <b>Reserves Category</b>                    | <b>Net Present Values of Future Net Revenue</b>       |                     |                      |                      |                      | <b>Unit Value<br/>Before Income<br/>Tax</b> |
|---|---|---------------------|----------------------|----------------------|----------------------|---|
|   | <b>Before Income Taxes Discounted At (% per year)</b> |                     |                      |                      |                      | <b>Discounted at<br/>10% per year</b>       |
|   | <b>0%<br/>(M\$)</b>                                   | <b>5%<br/>(M\$)</b> | <b>10%<br/>(M\$)</b> | <b>15%<br/>(M\$)</b> | <b>20%<br/>(M\$)</b> | <b>\$/boe</b>                               |
| PROVED                                      |   |                     |                      |                      |                      |   |
| Producing                                   | 8,342   | 7,751               | 7,185                | 6,664                | 6,193                | 9.26  |
| Developed Non-producing                     | 3,512   | 2,851               | 2,322                | 1,890                | 1,531                | 16.01                                       |
| Undeveloped                                 | 1,877,688   | 807,945             | 352,663              | 132,122              | 12,551               | 5.41  |
| TOTAL PROVED                                | 1,889,542   | 818,547             | 362,170              | 140,676              | 20,275               | 5.48  |
| TOTAL PROBABLE                              | 11,551,087  | 2,694,473           | 628,074              | (18,009)             | (269,691)            | 2.11  |
| TOTAL PROVED PLUS<br>PROBABLE               | 13,440,629  | 3,513,020           | 990,244              | 122,667              | (249,416)            | 2.72  |
| TOTAL POSSIBLE                              | 6,940,917   | 1,839,562           | 674,487              | 288,977              | 123,312              | 5.75  |
| TOTAL PROVED PLUS<br>PROBABLE PLUS POSSIBLE | 20,381,546  | 5,352,582           | 1,664,731            | 411,644              | (126,104)            | 3.46  |

| <b>Reserves Category</b>                       | <b>Net Present Values of Future Net Revenue</b>      |                     |                      |                      |                      |
|--|--|---------------------|----------------------|----------------------|----------------------|
|  | <b>After Income Taxes Discounted At (% per year)</b> |                     |                      |                      |                      |
|  | <b>0%<br/>(M\$)</b>                                  | <b>5%<br/>(M\$)</b> | <b>10%<br/>(M\$)</b> | <b>15%<br/>(M\$)</b> | <b>20%<br/>(M\$)</b> |
| PROVED   |  |                     |                      |                      |                      |
| Producing                                      | 8,342  | 7,751               | 7,185                | 6,664                | 6,193                |
| Developed Non-producing                        | 3,512  | 2,851               | 2,322                | 1,890                | 1,531                |
| Undeveloped                                    | 1,494,900  | 641,673             | 273,222              | 90,940               | (10,307)             |
| TOTAL PROVED                                   | 1,506,754  | 652,275             | 282,729              | 99,494               | (2,583)              |
| TOTAL PROBABLE                                 | 8,635,411  | 1,894,218           | 332,408              | (154,660)            | (342,971)            |
| TOTAL PROVED PLUS<br>PROBABLE                  | 10,142,166   | 2,546,493           | 615,138              | (55,166)             | (345,554)            |
| TOTAL POSSIBLE                                 | 5,149,479  | 1,350,025           | 476,668              | 186,581              | 62,327               |
| TOTAL PROVED PLUS<br>PROBABLE PLUS<br>POSSIBLE | 15,291,645   | 3,896,518           | 1,091,806            | 131,415              | (283,227)            |

**Total Future Net Revenue (Undiscounted) – Forecast Prices and Costs as of December 31, 2012**

| <b>Reserves Category</b>                 | <b>Revenue (M\$)</b> | <b>Royalties (M\$)</b> | <b>Operating Costs (M\$)</b> | <b>Capital Development Costs (M\$)</b> | <b>Abandonment Costs (M\$)</b> | <b>Future Net Revenue Before Income Taxes (M\$)</b> | <b>Income Tax (M\$)</b> | <b>Future Net Revenue After Income Taxes (M\$)</b> |
|--|----------------------|------------------------|------------------------------|--|--------------------------------|---|-------------------------|--|
| Proved Producing                         | 50,696               | 3,345                  | 37,236                       | -                                      | 1,773                          | 8,342   | -                       | 8,342  |
| Total Proved                             | 6,495,378            | 1,177,544              | 1,826,892                    | 1,557,082                              | 44,318                         | 1,889,542   | 382,788                 | 1,506,754  |
| Total Proved Plus Probable               | 45,714,333           | 8,662,057              | 12,861,604                   | 10,377,122                             | 372,921                        | 13,440,629  | 3,298,464               | 10,142,166   |
| Total Possible                           | 17,369,417           | 4,524,356              | 3,788,904                    | 2,061,739                              | 53,502                         | 6,940,917   | 1,791,439               | 5,149,479  |
| Total Proved Plus Probable Plus Possible | 63,083,750           | 13,186,413             | 16,650,508                   | 12,438,861                             | 426,423                        | 20,381,546  | 5,089,903               | 15,291,645   |

**Future Net Revenue by Production Group – Forecast Prices and Costs as of December 31, 2012**

| <b>Reserves Category</b>                 | <b>Production Group</b> | <b>Future Net Revenue Before Income Taxes</b> |               |
|--|-------------------------|---|---------------|
|  |                         | <b>(Discounted at 10% per year)</b>           |               |
|  |                         | <b>Present Value (M\$)</b>                    | <b>\$/boe</b> |
| Proved                                   | Heavy Oil               | 1,590   | 0.69          |
|  | Bitumen                 | 360,580                                       | 5.65          |
| Total Proved                             |                         | 362,170                                       | 5.48          |
| Proved Plus Probable                     | Heavy Oil               | 11,952  | 2.64          |
|  | Bitumen                 | 978,292                                       | 2.72          |
| Total Proved Plus Probable               |                         | 990,244                                       | 2.72          |
| Proved Plus Probable Plus Possible       | Heavy Oil               | 22,562  | 3.47          |
|  | Bitumen                 | 1,642,169                                     | 3.46          |
| Total Proved Plus Probable Plus Possible |                         | 1,664,731                                     | 3.46          |

**Reconciliation of Changes in Reserves**

As this is the Corporation's first year end as a reporting issuer in Alberta, the below reconciliation compares back to the most recent reserves and resource evaluation with an effective date of May 31, 2012.

## Reconciliation of Corporation's Gross Reserves - Forecast Prices and Costs as of December 31, 2012

| Factors                | Heavy Oil         |                     |                                       |   | Bitumen           |                     |                                       |   | Oil Equivalent    |                     |                                       |   |
|------------------------|-------------------|---------------------|---------------------------------------|---|-------------------|---------------------|---------------------------------------|---|-------------------|---------------------|---------------------------------------|---|
|                        | Proved<br>(MMbbl) | Probable<br>(MMbbl) | Proved<br>Plus<br>Probable<br>(MMbbl) | Proved<br>Plus<br>Probable<br>Plus<br>Possible<br>(MMbbl) | Proved<br>(MMbbl) | Probable<br>(MMbbl) | Proved<br>Plus<br>Probable<br>(MMbbl) | Proved<br>Plus<br>Probable<br>Plus<br>Possible<br>(MMbbl) | Proved<br>(MMboe) | Probable<br>(MMboe) | Proved<br>Plus<br>Probable<br>(MMboe) | Proved<br>Plus<br>Probable<br>Plus<br>Possible<br>(MMboe) |
| May 31, 2012           | 2                 | 2                   | 5                                     | 6   | 78                | 362                 | 440                                   | 597   | 80                | 365                 | 445                                   | 603   |
| Discoveries            | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Extensions*            | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Infill Drilling*       | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Improved<br>Recovery*  | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Technical<br>Revisions | 0                 | 0                   | 0                                     | 1   | 0                 | 1                   | 1                                     | 1   | 0                 | 1                   | 1                                     | 2   |
| Acquisitions           | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Dispositions           | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Economic Factors       | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| Production             | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   | 0                 | 0                   | 0                                     | 0   |
| December 31, 2012      | 2                 | 2                   | 5                                     | 7   | 78                | 363                 | 441                                   | 598   | 80                | 366                 | 446                                   | 605   |

### Pricing Assumptions

The price forecast used in the GLJ and D&M December 31, 2012 reserves assessment that formed the basis for the revenue projections and net present value estimates in the independent reports were based on D&M's January 3, 2013 pricing forecast with an effective date of December 31, 2012. A summary of this price forecast is set forth below.

### D&M Pricing Forecast Effective December 31, 2012

| Year  | Oilfield<br>Costs<br>Inflation<br>% | Exchange<br>1 CAD<br>= x USD                                     | WTI<br>@ Cushing<br>\$/bbl | Edm. Oil<br>Edmonton<br>Light<br>\$/bbl | Heavy Oil<br>25 API<br>Hardisty<br>\$/bbl | Heavy Oil<br>12 API<br>Hardisty<br>\$/bbl | Crude<br>Bitumen<br>9 API<br>Pipeline<br>\$/bbl | Crude<br>Bitumen<br>9 API<br>Plant Gate<br>\$/bbl | Dilbit @<br>35%<br>Condensate<br>\$/bbl | NYMEX<br>Henry<br>Hub<br>Reference<br>US\$/Mcf | Edmonton<br>Pentanes Plus<br>\$/bbl |
|-------|-------------------------------------|--|----------------------------|---|---|---|---|---|---|--|-------------------------------------|
| 2013  | 0.0                                 | 1.010  | 93.00                      | 87.48                                   | 76.98                                     | 67.36                                     | 64.62   | 58.85   | 72.36                                   | 4.05   | 89.22                               |
| 2014  | 2.0                                 | 1.005  | 94.35                      | 89.19                                   | 76.70                                     | 68.67                                     | 64.38   | 57.86   | 72.10                                   | 4.50   | 90.97                               |
| 2015  | 2.0                                 | 1.000  | 95.72                      | 90.93                                   | 78.20                                     | 70.02                                     | 65.64   | 58.99   | 73.51                                   | 5.00   | 92.75                               |
| 2016  | 2.0                                 | 0.990  | 101.88                     | 98.03                                   | 82.34                                     | 75.48                                     | 69.12   | 61.37   | 77.40                                   | 5.55   | 99.99                               |
| 2017  | 2.0                                 | 0.980  | 106.62                     | 103.83                                  | 87.21                                     | 79.95                                     | 73.21   | 65.08   | 81.98                                   | 6.10   | 105.90                              |
| 2018  | 2.0                                 | 0.980  | 109.30                     | 106.46                                  | 89.43                                     | 81.98                                     | 75.07   | 66.75   | 84.06                                   | 6.22   | 108.59                              |
| 2019  | 2.0                                 | 0.980  | 112.62                     | 109.74                                  | 92.18                                     | 84.50                                     | 77.38   | 68.83   | 86.65                                   | 6.35   | 111.94                              |
| 2020  | 2.0                                 | 0.980  | 114.87                     | 111.94                                  | 94.03                                     | 86.19                                     | 78.93   | 70.21   | 88.39                                   | 6.47   | 114.18                              |
| 2021  | 2.0                                 | 0.980  | 117.17                     | 114.18                                  | 95.91                                     | 87.92                                     | 80.51   | 71.61   | 90.15                                   | 6.60   | 116.46                              |
| 2022  | 2.0                                 | 0.980  | 119.51                     | 116.46                                  | 97.83                                     | 89.67                                     | 82.12   | 73.05   | 91.96                                   | 6.73   | 118.79                              |
| 2023  | 2.0                                 | 0.980  | 121.90                     | 118.79                                  | 99.78                                     | 91.47                                     | 83.76   | 74.51   | 93.80                                   | 6.87   | 121.17                              |
| 2024  | 2.0                                 | 0.980  | 124.34                     | 121.17                                  | 101.78                                    | 93.30                                     | 85.44   | 76.00   | 95.67                                   | 7.01   | 123.59                              |
| 2025+ | 2.0                                 | escalate oil, gas and product prices at 2.0% per year thereafter |                            |   |   |   |   |   |   |  |                                     |

### Additional Information Relating to Reserves Data

The Independent Reports estimate the Corporation's gross proven reserves to be 80 million bbls and proved plus probable reserves to be 446 million bbls. All of the Corporation's reserves will be developed with the start-up and commissioning of the first 10,000 bbl/d phase 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. The conventional heavy oil reserves at Muskwa may be developed through future pad drilling following ongoing optimization of production and operating costs.

### 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

| Proved Undeveloped Reserves | Heavy Oil (Mbbbl) |                   | Bitumen (Mbbbl)  |                   | Oil Equivalent (Mbbbl) |                   |
|-----------------------------|-------------------|-------------------|------------------|-------------------|------------------------|-------------------|
|                             | First Attributed  | Total at Year-end | First Attributed | Total at Year-end | First Attributed       | Total at Year-end |
| Prior                       | -                 | -                 | -                | -                 | -                      | -                 |
| 2010                        | -                 | -                 | -                | -                 | -                      | -                 |
| 2011                        | -                 | -                 | -                | -                 | -                      | -                 |
| 2012                        | 1,468             | 1,468             | 77,546           | 77,546            | 79,014                 | 79,014            |

| Probable Undeveloped Reserves | Heavy Oil (Mbbbl) |                   | Bitumen (Mbbbl)  |                   | Oil Equivalent (Mbbbl) |                   |
|-------------------------------|-------------------|-------------------|------------------|-------------------|------------------------|-------------------|
|                               | First Attributed  | Total at Year-end | First Attributed | Total at Year-end | First Attributed       | Total at Year-end |
| Prior                         | -                 | -                 | -                | -                 | -                      | -                 |
| 2010                          | -                 | -                 | -                | -                 | -                      | -                 |
| 2011                          | -                 | -                 | -                | -                 | -                      | -                 |
| 2012                          | 2,156             | 2,156             | 363,489          | 363,489           | 365,645                | 365,645           |

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

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 reserves.



**Corporation's Annual Capital Expenditures**  
**Forecast Prices and Costs as of December 31, 2012**  
(M\$)

| Year                      | Total Proved | Total Proved Plus Probable |
|---------------------------|--------------|----------------------------|
| 2013                      | 340,486      | 470,722                    |
| 2014                      | 49,654       | 476,173                    |
| 2015                      | 15,831       | 469,418                    |
| 2016                      | 73,145       | 225,787                    |
| 2017                      | 48,942       | 94,954                     |
| 2018                      | 47,757       | 180,386                    |
| 2019                      | 41,313       | 138,002                    |
| 2020                      | 41,409       | 176,681                    |
| 2021                      | 59,495       | 170,962                    |
| 2022                      | 51,503       | 145,879                    |
| 2023                      | 43,943       | 214,650                    |
| 2024                      | 54,177       | 142,119                    |
| Total For Remaining Years | 689,427      | 7,471,388                  |

The Corporation expects that existing working capital, access to additional external financing and cash flows to be generated from its projects as developed will be sufficient to fund future development costs. 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, 2012, there were 29 of 39 production wells producing conventional heavy oil at Muskwa.

### ***Abandonment and Reclamation Costs***

For the purposes of preparation of decommissioning liabilities on the Corporation's December 31, 2012 consolidated financial statements, the Corporation estimated an undiscounted amount of \$73.4 million and calculated a present value of \$39.0 million using a discount rate of 1.1-2.4%. Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2137.

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 and D&M Report, effective December 31, 2012, well abandonment costs for total proved plus probable reserves were estimated to be \$373 million, undiscounted, and \$40 million, discounted at 10%. These estimates are in respect of well costs only for wells that have been assigned reserves and do not include costs to abandon pipelines, facilities or wells for which no reserves have been assigned, which the Corporation has included in determining its asset retirement obligation.

The following table summarizes the estimated annual abandonment costs (\$ thousands) as provided in the GLJ Report and D&M Report:

|  | 2013 | 2014 | 2015 | 2016 | 2017 | 2018  | 2019  | 2020  | 2021  | 2022  | 2023   | 2024   | Subtotal | Total remainder | Total   | 10% Discounted |
|--|------|------|------|------|------|-------|-------|-------|-------|-------|--------|--------|----------|-----------------|---------|----------------|
| Total Proved                             | -    | -    | 749  | -    | 866  | 5,586 | 1,644 | -     | 2,343 | 1,924 | 1,524  | 1,243  | 15,881   | 28,437          | 44,318  | 12,566         |
| Total Proved Plus Probable               | -    | -    | -    | 764  | -    | 309   | 5,451 | 6,800 | 750   | 2,802 | 8,649  | 11,501 | 37,026   | 335,895         | 372,921 | 40,429         |
| Total Proved Plus Probable Plus Possible | -    | -    | -    | -    | 779  | -     | 2,567 | 6,386 | 4,042 | 2,091 | 12,458 | 13,291 | 41,616   | 384,807         | 426,423 | 42,760         |

### ***Tax Horizon***

The Corporation had no assessable profit in Canada and did not pay any current income taxes for the year ended December 31, 2012. 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 *Income Tax Act* (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. The Corporation's wholly owned subsidiary, Sunshine Hong Kong Ltd., did not have any Hong Kong profits and did not pay any current income taxes for the year ended December 31, 2012. The Corporation had approximately \$748.7 million of tax losses and other deductions available in Canada. The tax losses will begin expiring in 2027.

### ***Costs Incurred***

The following table summarizes the capital investment made the Corporation on its properties for the year ended December 31, 2012:

|   | <b>Exploration &amp; Evaluation</b> |
|---|-------------------------------------|
|   | <b>(M\$)</b>                        |
| Land and leasehold payments                                       | 2,756                               |
| Drilling delineation  | 34,767                              |
| Geological and seismic  | 191                                 |
| Equipment, tangibles and roads                                    | 7,196                               |
| Directly attributable capitalized general administration expenses | 1,756                               |
|   | <b>46,666</b>                       |
|   | <b>Crude oil assets (West Ells)</b> |
|   | <b>(M\$)</b>                        |
| Land and leasehold payments                                       | 9,583                               |
| Drilling delineation  | 48,160                              |

|   |                       |
|---|-----------------------|
| Geological and seismic  | 8,147                 |
| Equipment, tangibles and roads                                    | 148,387               |
| Directly attributable capitalized general administration expenses | 8,405                 |
|   | <u>222,682</u>        |
|   | 269,348               |
| Less: changes in non cash working capital                         | (39,966)              |
| Total capital expenditures  | <u><b>229,382</b></u> |

### ***Exploration and Development Activities***

The following table sets forth the number of exploratory and development wells which the Corporation completed during the year ended December 31, 2012:

|                                      |           |
|--------------------------------------|-----------|
| Exploration Wells                    | 47        |
| Horizontal Wells                     | 1         |
| SAGD Wells                           | 2         |
| Observation Wells                    | 19        |
| Water Source/Disposal                | 9         |
| Total Wells completed <sup>(1)</sup> | <u>78</u> |

#### **Notes:**

(1) The Corporation has a 100% working interest in all wells except for 1 water well in which the Corporation has a 50% working interest.

### ***Production Estimates***

Summary of the first year proved and proved plus probable reserves production estimates for 2013 are shown below.

#### **Summary of First Year Production and Oil Reserves for 2013**

| Reserves Category          | Asset            | Heavy Oil      |              | Bitumen        |              | Oil Equivalent |              |
|----------------------------|------------------|----------------|--------------|----------------|--------------|----------------|--------------|
|                            |                  | Gross<br>bbl/d | Net<br>bbl/d | Gross<br>bbl/d | Net<br>bbl/d | Gross<br>bbl/d | Net<br>bbl/d |
| Proved                     | Muskwa           | 926            | 874          | -              | -            | 926            | 874          |
|                            | West Ells        | -              | -            | 1,020          | 963          | 1,020          | 963          |
|                            | Other Properties | -              | -            | -              | -            | -              | -            |
| Total Proved               |                  | <u>926</u>     | <u>874</u>   | <u>1,020</u>   | <u>963</u>   | <u>1,946</u>   | <u>1,837</u> |
| Probable                   | Muskwa           | 3              | 3            | -              | -            | 3              | 3            |
|                            | West Ells        | -              | -            | 60             | 57           | 60             | 57           |
|                            | Other Properties | -              | -            | -              | -            | -              | -            |
| Total Probable             |                  | <u>3</u>       | <u>3</u>     | <u>60</u>      | <u>57</u>    | <u>63</u>      | <u>60</u>    |
| Proved Plus Probable       | Muskwa           | 929            | 877          | -              | -            | 929            | 877          |
|                            | West Ells        | -              | -            | 1,080          | 1,020        | 1,080          | 1,020        |
|                            | Other Properties | -              | -            | -              | -            | -              | -            |
| Total Proved Plus Probable |                  | <u>929</u>     | <u>877</u>   | <u>1,080</u>   | <u>1,020</u> | <u>2,009</u>   | <u>1,897</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 2012, production from the Corporation's Muskwa asset averaged 590 bbl/d.

## 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. In addition to the reserves as assigned by GLJ and D&M, West Ells contains 655 million bbls of best estimate contingent resources, Thickwood has been assigned 341 million bbls of best estimate contingent resources and Legend has best estimate contingent resource recognition of 484 million bbls. Sunshine's other clastic assets account for an additional best estimate contingent resource assignment of 2,233 million bbls. The Corporation's carbonate best estimate contingent resource assignment at its Harper Grosmont and Ells Leduc assets are respectively 371 million and 158 million bbls. Other carbonate assets show an additional best estimate contingent resource potential of 816 million bbls.

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 clastic best estimate contingent resources are estimated at 3,712 million bbls. In addition the carbonate best estimate contingent resources are 1,345 million bbls for a combined total of 5,057 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, 2012, as evaluated by GLJ and D&M.

| Property              | Contingent Resources |                 |                   |                 |                   |                 |
|-----------------------|----------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
|                       | Low Estimate         |                 | Best Estimate     |                 | High Estimate     |                 |
|                       | Gross<br>(MMbbls)    | PV10%<br>(\$MM) | Gross<br>(MMbbls) | PV10%<br>(\$MM) | Gross<br>(MMbbls) | PV10%<br>(\$MM) |
| <b>Clastics</b>       |                      |                 |                   |                 |                   |                 |
| West Ells             | 300                  | 921             | 655               | 2,262           | 978               | 3,314           |
| Thickwood             | 193                  | 185             | 341               | 770             | 498               | 1,627           |
| Legend                | 241                  | 325             | 484               | 1,301           | 723               | 2,595           |
| Other Clastics        | 1,014                | 1,671           | 2,233             | 3,736           | 3,940             | 8,771           |
| <b>Total Clastics</b> | <b>1,748</b>         | <b>3,102</b>    | <b>3,712</b>      | <b>8,069</b>    | <b>6,139</b>      | <b>16,307</b>   |
| <b>Carbonates</b>     |                      |                 |                   |                 |                   |                 |
| Harper Grosmont       | 0                    | 0               | 371               | 36              | 1,356             | 2,514           |
| Ells Leduc            | 0                    | 0               | 158               | 306             | 336               | 1,132           |
| Other Carbonates      | 463                  | 839             | 816               | 1,883           | 3,558             | 6,414           |
| Total Carbonates      | 463                  | 839             | 1,345             | 2,225           | 5,250             | 10,060          |
| <b>Combined Total</b> | <b>2,211</b>         | <b>3,941</b>    | <b>5,057</b>      | <b>10,294</b>   | <b>11,389</b>     | <b>26,367</b>   |

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, expected to occur as appropriate over the long term lives of these developments, and regulatory submissions for expanded scale, expected during 2013 and possibly 2014. 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. 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; and (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**

***Projects are currently in the early stages of development and may not be completed within expected time frames, within budget, or at all.***

Our projects are currently in early development stages. The 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:

- 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;
- 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; and
- the pace of progress with respect to developing extraction technologies.

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 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.

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

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 to develop commercial operations beyond our first West Ells project 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.

***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.

***Our operations and assets could be adversely affected by the LARP.***

Our operations in the Lower Athabasca region may be adversely affected by the LARP, which was approved by the provincial cabinet of the Government of Alberta on August 22, 2012, and became effective on September 1, 2012. The LARP contains management frameworks for air quality, surface water quality and ground water quality that are intended to assist in the monitoring and management of long-term cumulative changes to the Lower Athabasca region. The management frameworks establish triggers and limits for air quality and surface water quality, and establish interim triggers and limits for ground water quality. All oil sands companies operating within the Lower Athabasca region are required to comply with both the terms of their specific approvals as well as the triggers and limits established by the LARP, including its land use management frameworks. The LARP also contains future planning to increase provincial conservation areas by 16%. Conservation areas will be managed to minimize or prevent new land disturbance. Land disturbance associated with exploration, development and extraction of *in situ* and mineable oil sands are not considered compatible with the management intent of conservation areas. Therefore, no new oil sands tenure will be sold in conservation areas designated under the LARP. Petroleum and natural gas tenure will be honoured. New petroleum and natural gas tenure sold in a conservation area will include a restriction that prohibits surface access. However, the Government of Alberta is expected to consider new surface access through these areas if natural resources located outside new conservation areas are made inaccessible to disposition holders. In addition, all decisions that implement regional plans are expected to be made through existing laws. All rights to appeal, requirements for due process and rights to compensation enjoyed by rights holders under these laws are not anticipated by the Corporation to be changed by the LARP. In April 2011, the SRD placed a Protective Notation (“PNT”) on all surface access associated with the LARP. The PNT acts as a land identifier to the Government of Alberta and industry to identify lands that may be managed to

achieve particular land use or conservation objectives, and can place a surface restriction which requires Oil Sands Lease holders to apply for access to proposed conservation areas for new surface and exploration activities.

Both GLJ and D&M have indicated that based on the LARP only our Crow Lake East Long Lake and Harper properties may be impacted by the proposed conservation areas. None of the reserves are affected by the current LARP proposal. Also, GLJ confirmed that none of the best estimate contingent resource assignments at Crow Lake, East Long Lake or Harper (carbonate) would be affected by the LARP. D&M confirmed that for Harper (clastics) only approximately 2% of our best estimate contingent resource assignments will be affected by the LARP (out of the assigned 751 million barrels of best estimate contingent resources at Harper only 16 million barrels of those resources are potentially affected by the LARP).

The PNT was amended in August 2011 which allowed oil sands sub-surface tenure applications to be accepted and assessed by AESRD on a case by case basis within the Harper area. For example, we submitted and received a PNT restriction variance from AESRD which deemed the surface and exploration activities for our 2011/2012 winter drilling programmes in the Harper area to be within the PNT boundaries. However, given the PNT restriction variance applied only to the Harper area, our access to, and exploration activities with respect to other properties continue to be subject to the LARP and are substantially restricted. Until the LARP is fully implemented by the Government of Alberta we are unable to make any definitive assessment of the impact of the LARP on our Oil Sands Leases. However, as the impacted areas contain best estimate contingent resources, the execution of certain components of our long term business strategies and expansion plans may be negatively affected by restrictions imposed under the LARP, which could in turn affect our business, results of operations, financial position and growth prospects. In addition, the LARP affects only the Lower Athabasca region, which is one of seven regions of Alberta. We cannot assure you that the Government of Alberta will not impose policies or plans similar to the LARP to regulate environmental protection and preservation in respect of other regions in Alberta where we may have development opportunities.

We continue to evaluate our options with respect to the LARP including approaching the Government of Alberta for compensation of all expenditures incurred plus loss of future opportunities, in the event that any of our Oil Sands leases are cancelled by the Government of Alberta. Discussions and communications with the Government of Alberta are ongoing and the full impact of the LARP on the Corporation's land holdings and exploration plans is yet to be determined.

***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.

***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; and (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.

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.

***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 ERCB 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.

**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, 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.

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 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.

***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, the effects of regulation by governmental agencies such as 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 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 COGEH 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 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* 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 2013 is \$344 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. On a date still to be fixed, new regulations under the ICA will come into force, increasing the \$344 million threshold for WTO investors, other than state owned enterprises, to \$600 million in “enterprise value” for two years, followed by an increase to \$800 million for the next two years, reaching \$1 billion after four years, and subsequently annually indexed to changes in Canada’s nominal gross domestic product.

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 \$80 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 \$80 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 and all lease rentals have 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 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, 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. 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.

For further information on environmental regulation, please refer to the section titled “*Laws and Regulations in the Industry - Laws and Regulations Relating to Land*” and the section titled “*Laws and Regulations in the Industry - Laws and Regulations Relating to Environmental Protection*” in this AIF.

***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). If a facility is not able to abate GHG emissions sufficiently to meet the reduction target, it may utilize the following compliance mechanisms: (i) emissions performance credits obtained from other regulated facilities; (ii) emissions offsets obtained from non-regulated facilities or projects which reduce or remove GHG emissions; or (iii) credits for contributions to the Climate Change and Emissions

Management Fund. 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.

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. Draft regulations are expected in 2013 with implementation in 2014. 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. For further details, please refer to the section titled “*Laws and Regulations in the Industry - Water use*” in this AIF.

***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. 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 most 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 about 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 lock-up periods. We cannot assure you that after the restrictions of the lock-up periods expire 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.

***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 157,959,461 Shares, representing approximately 5.51% 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.

## **DESCRIPTION OF SHARE CAPITAL**

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 2,865,138,161 Class "A" Common Voting Shares, 58,890,000 Class "G" Shares and 22,200,000 Class "H" Shares 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” 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 *Business Corporations Act* (Alberta).

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.

**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 March 1, 2012 to December 31, 2012:

| <b>Month</b> | <b>Class “A” Common Voting Share</b> |                    | <b>Volume</b> |
|--------------|--------------------------------------|--------------------|---------------|
|              | <b>High (\$HKD)</b>                  | <b>Low (\$HKD)</b> |               |
| <b>2012</b>  |                                      |                    |               |
| March        | 4.86                                 | 4.41               | 109,905,500   |
| April        | 4.92                                 | 4.57               | 25,195,500    |
| May          | 4.76                                 | 4.5                | 67,176,000    |
| June         | 4.42                                 | 4.47               | 129,561,700   |
| July         | 4.63                                 | 4.5                | 6,555,500     |
| August       | 4.63                                 | 4.33               | 3,913,800     |
| September    | 4.41                                 | 2.56               | 142,474,200   |
| October      | 3.24                                 | 2.58               | 101,111,000   |
| November     | 3.79                                 | 2.56               | 229,794,500   |
| December     | 3.13                                 | 2.65               | 293,055,600   |

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 November 16, 2012 to December 31, 2012.

| <b>Month</b>   | <b>Class “A” Common Voting Share</b> |                 | <b>Volume</b> |
|----------------|--------------------------------------|-----------------|---------------|
|                | <b>High (\$)</b>                     | <b>Low (\$)</b> |               |
| <b>2012</b>    |                                      |                 |               |
| November 16-30 | 0.47                                 | 0.34            | 5,272,700     |
| December       | 0.40                                 | 0.32            | 13,272,300    |

**Prior Sales**

The following tables summarizes the issuances of Class “G” Shares in the last financial year. Aside from the Class “G” Shares, no other classes of shares or other securities of the Corporation that are not traded or quoted on a marketplace were issued in the last financial year.

**Class “G” Shares**

| <b>Date(s) of Issuance</b> | <b>Number of Class “G” Shares</b> | <b>Issue Price per Security</b> |
|----------------------------|-----------------------------------|---------------------------------|
| January 3, 2012            | 650,000                           | \$0.0005                        |
| January 16, 2012           | 30,000                            | \$0.0005                        |

| <b>Date(s) of Issuance</b> | <b>Number of Class "G" Shares</b> | <b>Issue Price per Security</b> |
|----------------------------|-----------------------------------|---------------------------------|
| February 1, 2012           | 100,000                           | \$0.0005                        |
| February 10, 2012          | 50,000                            | \$0.0005                        |
| <b>Total</b>               | <b>830,000</b>                    | <b>\$0.0005</b>                 |

## 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:

| <b>Name, Municipality of Residence &amp; Current Position(s) with the Corporation</b>                               | <b>Principal Occupation in the Past Five Years</b>   | <b>Director Since</b> | <b>Shares Beneficially Owned or Over Which Control or Direction Exercised as at March 26, 2012<br/>(As a Percentage of Total Number of Shares Outstanding)<sup>(5)</sup></b> |
|---|--|-----------------------|--|
| <b>Michael J. Hibberd<sup>(1)</sup></b><br>Calgary, Alberta<br>Canada<br><i>Co-Chairman and Director</i>            | Co-Chairman of the Corporation since October 2008. 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. Chairman of Heritage Oil Plc. since March 2008. Chairman of Heritage Oil Corporation since November 2006. Director of Pan Orient Energy Corp. since April 2005. Director of Montana Exploration Corp. since 1997. | May 9, 2007           | 79,210,000<br>(2.69%)  |
| <b>Songning Shen<sup>(2)</sup></b><br>Calgary, Alberta<br>Canada<br><i>Co-Chairman and Director</i>                 | Co-Chairman of the Corporation since October 2008. Prior thereto, President and Co-CEO of the Corporation from August 2007 to October 2008 and geology consultant at Koch Exploration Canada L.P. from March 2006 to June 2007.  | February 22, 2007     | 78,739,660<br>(2.67%)  |
| <b>Hokming Tseung<sup>(1)(3)</sup></b><br>Hong Kong<br>China<br><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 HKEx on June 13, 2012.   | March 2, 2010         | 295,233,035<br>(10.02%)  |
| <b>Tingan Liu<sup>(4)</sup></b><br>Kowloon, Hong Kong<br>China<br><i>Director and Hong Kong Corporate Secretary</i> | 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. Councillor of the Life Insurance Council of the Hong Kong Federation of Insurers since September 2008.  | February 1, 2011      | 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, 2012<br>(As a Percentage of Total Number of Shares Outstanding) <sup>(5)</sup> |
|--|--|-------------------|---|
| <b>Haotian Li</b> <sup>(1)</sup><br>Hong Kong<br>China<br><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>Gregory G. Turnbull, QC</b> <sup>(1)(3)</sup><br>Calgary, Alberta<br>Canada<br><i>Director</i>    | Partner of McCarthy Tétrault LLP, Calgary since January 2002.  | August 24, 2007   | 12,300,000<br>(0.42%)   |
| <b>Raymond S. Fong</b> <sup>(2)(3)</sup><br>Calgary, Alberta<br>Canada<br><i>Director</i>            | Chief Executive Officer of China Coal Corporation of Calgary since May 2010. Prior thereto, director of Abenteuer Resources Ltd. from November 2000 to August 2008 and director of Stealth Ventures Ltd. from November 1999 to November 2007.  | May 9, 2007       | 8,100,000<br>(0.27%)  |
| <b>Robert J. Herdman</b> <sup>(1)(3)(4)</sup><br>Calgary, Alberta<br>Canada<br><i>Director</i>       | Director of TriOil Resources Ltd. since February 2012 and 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.  | July 18, 2011     | Nil   |
| <b>Wazir C. (Mike) Seth</b> <sup>(2)(4)</sup><br>Calgary, Alberta<br>Canada<br><i>Director</i>       | President of Seth Consultants Ltd. since January 1981. Director of Enerplus Corporation since September 2005. Director of Connacher Oil and Gas Limited since December 2005. Director of Corridor Resources Inc. since January 2006. Prior thereto, chairman, president and managing director of McDaniel & Associates Consultants Ltd. from January 1989 to June 2006, director of Reliable Energy Ltd. from February 2006 to May 2012, director of Open Range Energy Corp. from May 2009 to August 2012 and director of Torquay Oil Corp. from February 2010 to December 2012. | September 1, 2008 | 1,300,000<br>(0.04%)  |
| <b>Gerald F. Stevenson</b> <sup>(1)(2)(4)</sup><br>Calgary, Alberta<br>Canada<br><i>Director</i>     | Director of Southwest Energy Trust since August 2011. VP Business Development at Enerplus responsible for acquisition and divestitures since from October 2001 to March 2003. Prior thereto, from January 2006 to April 2011, head of oil & gas acquisitions and divestitures for CIBC World Markets Inc., Calgary.  | July 15, 2011     | 34,000<br>(0.00%)   |
| <b>John E. Zahary</b><br>Calgary, Alberta,<br>Canada<br><i>President and Chief Executive Officer</i> | President and Chief Executive Officer of the Corporation since December 2011. Prior thereto, from February 2006 to January 2012, President and Chief Executive Officer of Harvest Operations Corp. and from April 2004 to February 2006, President and Chief Executive Officer of Viking Energy Trust, a predecessor to Harvest Operations Corp.   | –                 | 4,200,000<br>(0.14%)  |

| 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, 2012<br>(As a Percentage of Total Number of Shares Outstanding) <sup>(5)</sup> |
|--|--|----------------|---|
| <b>Robert A. Pearce</b><br>Calgary, Alberta<br>Canada<br><i>Senior Vice President, Finance and Chief Financial Officer</i> | Senior Vice-President and Chief Financial Officer of the Corporation since November 2012. Prior thereto, from February 2012 to November 2012, Chief Operating Officer of Harvest Operations Corp., and from August 2011 to February 2012, Treasurer and Vice President of Corporate Development of Harvest Operations Corp. From July 2010 to August 2011 Chief Financial Officer of E-T Energy Ltd. and from February 2009 to July 2010, an independent consultant. Prior to February 2009, various positions with Northwest Upgrading Inc., including CFO and CEO. | –              | Nil   |
| <b>Tonino Sabelli</b><br>Calgary, Alberta,<br>Canada<br><i>Senior Vice President, Operations</i>                           | Senior Vice President, Operations of the Corporation since December 2011. Prior thereto, from August 2010 to December 2011, Vice President, Drilling, Completions and Construction. From September 2006 to May 2008, founder and officer of Rising Sky Energy Ltd.   | –              | 2,440,000<br>(0.08%)  |
| <b>David O. Sealock</b><br>Airdrie, Alberta,<br>Canada<br><i>Executive Vice President, Corporate Operations</i>            | Executive Vice President, Corporate Operations of the Corporation since June 2010. Prior thereto, from June 2008 to June 2010, Vice President, Corporate Operations of the Corporation. From January 2007 to June 2008, Vice President, Corporate Services, Investor Relations and Corporate Secretary at MegaWest Energy Corp.  | –              | 2,431,000<br>(0.08%)  |
| <b>Richard Walter Pawluk</b><br>Calgary, Alberta,<br>Canada<br><i>Canadian Corporate Secretary</i>                         | Partner, McCarthy Tétrault LLP since January 2003.   | –              | 3,241,000<br>(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.
- (5) Includes Shares, Class “G” Shares and Class “H” Shares.

**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 487,228,695 Shares as at March 26, 2013. As at March 26, 2013, the Shares held by the Corporation’s officers and directors represent approximately 17% of the issued and outstanding Shares and 18% 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. Turnbull was a director of Action Energy Inc., a company engaged in the exploration, development and production of oil and gas in Western Canada. Action Energy Inc. was placed into receivership on October 28, 2009 by its major creditor and Mr. Turnbull resigned as a director immediately thereafter.

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. As a result, situations arise where the interests of such directors and officers 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.

## **PROMOTERS**

Messrs. Hibberd and Shen are considered to be promoters of the Corporation in that they took the initiative in founding and organizing the Corporation and played a significant role in the Corporation's listing on the SEHK. As at the date of this AIF, Mr. Hibberd owns or controls 68,210,000 Shares (2.4%) and 11,000,000 Class "G" Shares (18.6%) and Mr. Shen owns or controls 67,739,660 Shares (2.4%) and 11,000,000 Class "G" Shares (18.6%) respectively. As at the date of this AIF, Messrs. Hibberd and Shen both have 17,520,000 options outstanding, with each option entitling the holder thereof to purchase one Share in the capital of the Corporation.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of the Corporation, there are no legal proceedings or regulatory actions material to the Corporation to which the Corporation is a party, or was a party to in 2012, or of which any of its properties is the subject matter, or was the subject matter in 2012, nor are there any such proceedings known to the Corporation to be contemplated. There have been no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority and the Corporation has not entered into any settlement agreements with a court or 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. Hokming 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.

## **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 450, 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.

## **MATERIAL CONTRACTS**

Other than as set forth below and other than 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:

- (a) the Hong Kong Underwriting Agreement;

- (b) the International Underwriting Agreement;
- (c) the credit agreement dated October 18, 2011 entered into by the Corporation (the borrower) and Orient International Resources Group Limited (the lender), pursuant to which the lender has agreed to provide a credit facility in the maximum principal amount of \$100 million to the borrower, which agreement was cancelled during 2012;
- (d) the consulting agreement dated March 1, 2012 entered into between MJH Services Inc. and the Corporation;
- (e) the consulting agreement dated March 1, 2012, entered into between 1226591 Alberta Inc. and the Corporation;
- (f) the memorandum of understanding for strategic cooperation dated February 1, 2012 entered into between the Corporation and SIPC in relation to forming a strategic alliance and to carry out strategic cooperation with Sinopec;
- (g) the form of lock-up agreements executed by each of the following for the benefit of the Corporation and the underwriters of the Global Offering:
  - (i) Michael J. Hibberd dated February 10, 2012;
  - (ii) Songning Shen dated February 10, 2012;
  - (iii) Gregory G. Turnbull dated February 10, 2012;
  - (iv) Raymond Fong dated February 13, 2012;
  - (v) John Kowal dated February 13, 2012;
  - (vi) Douglas Stewart Brown dated February 10, 2012;
  - (vii) Thomas K. Rouse dated February 10, 2012;
  - (viii) David Sealock dated February 13, 2012;
  - (ix) Songbo Cong dated February 10, 2012;
  - (x) Richard Walter Pawluk dated February 10, 2012;
  - (xi) 1226591 Alberta Inc. dated February 10, 2012; and
  - (xii) MJH Services Inc. dated February 10, 2012;
- (h) the credit facility agreement dated October 11, 2012, entered into between co-lead institutions Alberta Treasury Branches and Bank of China (Canada), supported by Bank of America, N.A., Canada Branch; HSBC Bank Canada; Morgan Stanley Senior Funding, Inc.; Scotiabank; The Toronto-Dominion Bank; UBS AG Canada Branch; and Industrial and Commercial Bank of China (ICBC) (Canada); and
- (i) the memorandum of understanding for strategic cooperation dated January 11, 2013 entered into between the Corporation and China Oilfield Services Ltd. in relation to negotiating and communicating with each other in respect of cooperation in developing multiple thermal fluid oilsands exploration technology.

Copies of these agreements may be inspected at Sunshine's principal place of business located at Suite 1020, 903 - 8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 0P7, Canada.

### **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.

### **AUDIT COMMITTEE**

Information concerning the Corporation's audit committee has been set forth in the Corporation's Management Information Circular dated March 26, 2013 for the meeting of Shareholders that will be held on May 7, 2013 under the heading "*Corporate Governance Disclosure – Audit Committee*" and is incorporated by reference herein.

### **ADDITIONAL INFORMATION**

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 dated March 26, 2013 for the meeting of Shareholders that will be held on May 7, 2013.

Additional financial information is provided in our financial statements and management's discussion and analysis for the year ended December 31, 2012. 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 Oil Sands Ltd. (the “**Company**”):

1. We have evaluated the Company’s reserves data as at December 31, 2012. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2012, 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, 2012, 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<br/>Reserves Evaluator</b> | <b>Description and<br/>Preparation Date of<br/>Evaluation Report</b> | <b>Location of Reserves<br/>(Country or Foreign<br/>Geographic Area)</b> | <b>Net Present Value of Future Net Revenue<br/>(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<br>February 25, 2013                               | Canada   | -  | 978              | -               | <b>978</b>   |

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 judgements 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, March 8, 2013.

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

**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, 2012. The reserves data are estimates of proved, probable and possible reserves and related future net revenue as at December 31, 2012, 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, 2012, 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 | 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         |
| DeGolyer and MacNaughton Canada Limited  | Appraisal Report as of December 31, 2012 on the Muskwa Property owned by Sunshine Oilsands Ltd. in Alberta, Canada dated February 28, 2013 | Canada  | -   | 11,952    | -        | <b>11,952</b> |

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:

DeGolyer and MacNaughton Canada Limited., Calgary, Alberta, Canada, dated February 28, 2013.

*Douglas S Christie, P. Geol.*



**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, 2012. 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, 2012, 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 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 period ended December 31, 2012, 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<br/>Reserves Evaluator and<br/>Resource Category</b> | <b>Description and<br/>Preparation Date of<br/>Evaluation Report</b> | <b>Location of Reserves<br/>(Country or Foreign<br/>Geographic Area)</b> | <b>Net Present Value of Future Net Revenue<br/>(before income taxes, 10% discount rate – M\$)</b> |                  |                 |              |
|---|--|--|---|------------------|-----------------|--------------|
|   |  |  | <b>Audited</b>  | <b>Evaluated</b> | <b>Reviewed</b> | <b>Total</b> |
| <b><u>Contingent Resources</u></b>  |  |  |   |                  |                 |              |
| GLJ Petroleum Consultants   | Corporate Summary<br>February 25, 2013                               | Canada   | -   | 5,019            | -               | <b>5,019</b> |
| <b><u>Prospective Resources</u></b>   |  |  |   |                  |                 |              |
| GLJ Petroleum Consultants   | Corporate Summary<br>February 25, 2013                               | Canada   | -   | 8,792            | -               | <b>8,792</b> |

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 judgements 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 corehole 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, March 8, 2013

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

**FORM 51-101F2**  
**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 evaluated the Company’s resources data as at December 31, 2012. The resources data are estimates of low, best and high estimates of contingent and related future net revenue as at December 31, 2012, 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 (before deduction of income taxes) attributed to best estimate 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, 2012, and identifies the respective portions thereof that we have evaluated and reported on to the Company’s board of directors:

| <b>Independent<br/>Qualified Reserves<br/>Evaluator</b> | <b>Description and Preparation<br/>Date of Evaluation Report</b>  | <b>Location of Resources<br/>(Country or Foreign<br/>Geographic Area)</b> | <b>Net Present Value of Future Net Revenue<br/>(before income taxes, 10% discount rate – MM\$)</b> |                  |                 |              |
|---|---|---|--|------------------|-----------------|--------------|
|   |   |   | <b>Audited</b>   | <b>Evaluated</b> | <b>Reviewed</b> | <b>Total</b> |
| DeGolyer and<br>MacNaughton<br>Canada Limited           | Report as of December 31, 2012 on<br>the Contingent Resources<br>attributable to Certain Bitumen<br>Accumulations owned by Sunshine<br>Oilsands Ltd. in Alberta, Canada<br>dated March 12, 2013 | Canada  | -  | 5,276            | -               | <b>5,276</b> |

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, 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, Canada, dated March 12, 2013.

*Douglas S. Christie, P. Geol.*

**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, 2012, 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:

- (d) the content and filing with securities regulatory authorities of the AIF containing reserves, resources data and other oil and gas information;
- (e) the filing of the reports of the Independent Qualified Reserves Evaluators on the reserves and resources data; and
- (f) 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, 2013.

(signed) “*John Zahary*”

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**John Zahary**  
**Chief Executive Officer**

(signed) “*Michael Hibberd*”

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**Michael Hibberd**  
**Director**

(signed) “*Robert Pearce*”

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**Robert Pearce**  
**Chief Financial Officer**

(signed) “*Wazir (Mike) Seth*”

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**Wazir (Mike) Seth**  
**Director**