



**AMENDED MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and six month periods ended June 30, 2016**



## **Management's Discussion and Analysis**

*This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three and six months ended June 30, 2016. The original MD&A was filed on August 11, 2016. This amended MD&A is dated August 17, 2016 and is filed to indicate on page 21 that an interim review report by the Company's independent auditor was not issued as the independent auditor was not able to complete all of their outstanding procedures prior to the release of the unaudited condensed interim consolidated financial statements. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto for the three and six month periods ended June 30, 2016 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.*

### **Forward-Looking Information**

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

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

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

### **Overview**

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.4 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2015 was approximately 2.5 billion barrels, which was unchanged from the December 31, 2014 resource evaluation. The Company also has 422 million barrels of proved plus probable ("2P") reserves and 602 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2015. The Company did not conduct an evaluation of its Carbonate assets given the current commodity price and the introduction of risk factors to the contingent resources, which would deem the Carbonates to be uneconomic. With more than 1 million acres of oil sands and P&NG leases, the Company has significant commercial development potential. Phase 1 (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is on production and is ramping up to meet the designed plant capacity. The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the western hemisphere and the third largest oil resource in the world, with an estimated 166 billion barrels of recoverable resource. Canadian oil sands represent the largest single source of supply of oil imported into the United States.

The Company's focus is on evaluating and developing its oil sands assets with the first significant project targeting an initial production rate of 10,000 barrels per day at West Ells after completion of Phase 1 and Phase 2. Phase 1 is designed for 5,000 barrels per day while Phase 2 will add an additional 5,000 barrels per day.

As at June 30, 2016, the Company had invested approximately \$1.2 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at June 30, 2016, the Company had \$4.5 million in cash, \$6.4 million in prepaid expenses and deposits.



## **Overview (Continued)**

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access

immediate additional financing. There can be no assurance that the steps management will take will be successful. As such, there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

On September 30, 2015, the Company completed a voluntary delisting from the Toronto Stock Exchange. The Company's shares continue to be listed for trading on the Stock Exchange of Hong Kong Limited ("SEHK"), and trades under the trading symbol "2012".

## **Operational Update**

### ***West Ells***

During the three month ended June 30, 2016, the Company made progress in the following areas:

- Currently, all eight West Ells Phase I well pairs are on steam injection, with five well pairs converted to production mode, the remaining three well pairs are expected to be on production in the month of August;
- Although conversion from warm up to SAGD production with down hole pump installation was delayed due to the Fort McMurray forest fire, three additional pump installations were completed by July 24, 2016;
- Bitumen peak production, prior to the Fort McMurray forest fire, was 450 barrels per day from well pair 12 and 150 barrels per day from well pair 5.

During the first few weeks of the second quarter, preparations for installation of down hole pumps on the remaining six well pairs were substantially completed. The installation schedule was delayed by the Fort McMurray forest fire situation. Fortunately, the West Ells SAGD facility never came under direct threat from the Fort McMurray forest fires as no fire came closer than 50km to the facility. West Ells continued to operate steaming activities normally from May 3, 2016, the date when Fort McMurray was evacuated, until May 16, 2016, the date the Government of Alberta issued a Mandatory Evacuation Order to all facilities, which use the private AOSTRA road, including Sunshine West Ells. The plant was shut down in accordance with standard operating procedures and all site personnel were evacuated. Site staff returned on June 8, 2016 after the Mandatory Evacuation Order was lifted, normal steaming operations were re-established on June 21, 2016. No Health, Safety, Environmental incidents, or spills occurred during the evacuation or restart, and resumption of normal operations took place with no issues.

### ***Thickwood and Legend***

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2016. Once the Thickwood and Legend projects are sanctioned for development and construction, additional financing will need to be secured to proceed.

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

A thermal single well pilot project application was submitted in July, 2014, and approved on January 26, 2015. During the final quarter of 2014, Muskwa cold production wells were suspended due to low oil prices.

## **Non-IFRS Financial Measures**

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as cash flow from operations. The MD&A also includes disclosure required under the Hong Kong Listing Rules, such as debt to asset ratio. These financial measures are not defined by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. The Company uses these non-IFRS measures to help evaluate its performance. Management uses cash flow from operations to measure the Company's ability to generate funds to finance capital expenditures and repay debt.

These non-IFRS measures should not be considered as an alternative to or more meaningful than net income or net cash used in operating activities, as determined in accordance with IFRS. The data is intended to provide additional



**Non-IFRS Financial Measures (Continued)**

information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The non-IFRS measure of cash flow from operations can be reconciled to net cash used in operating activities, as determined in accordance with IFRS. Cash flow used in operations is a non-GAAP measure that adjusts a GAAP measure (net cash used in operating activities) for changes in non-cash working capital (deficiency).

**Operational and Financial Highlights**

The following table summarizes selected financial information of the Company for the periods presented:

Financial Highlights	For the three months ended June 30,		For the six months ended, June 30	
	2016	2015	2016	2015
Other income	\$ 10	\$ (840)	\$ 28	\$ (154)
Finance costs	15,415	9,891	30,013	19,045
Net loss	20,736	19,122	23,509	49,961
Basic and diluted loss per share	0.00	0.00	0.01	0.01
Payments for exploration and evaluation assets	502	439	809	639
Payments for property, plant and equipment	6,437	38,893	15,952	88,176

For the three and six month periods ended June 30, 2016, the Company had a net loss of \$20.7 million and \$23.5 million compared to \$19.1 million and \$50.0 million in 2015, respectively. The net loss for the respective three and six month periods ended June 30, 2016 was primarily affected by finance costs of \$15.4 million and \$30.0 million, general administration costs of \$3.5 million and \$7.3 million, and a foreign exchange loss of \$2.0 million and a foreign exchange gain of \$14.1 million. The net loss for the respective three and six month periods ended June 30, 2015 was primarily affected by a foreign exchange gain of \$3.2 million and a foreign exchange loss \$13.4 million, general administration costs of \$4.3 million and \$9.6 million, \$0.5 million and \$1.0 million for share-based payment expense, finance costs of \$9.9 million and \$19.0 million and losses of \$1.1 million and \$0.7 million on the fair value adjustment on share purchase warrants and contract provision expense of \$6.6 million.

	June 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 4,506	\$ 6,545
Current restricted cash and cash equivalents	-	14,389
Working capital deficiency	311,024	286,121
Total assets	974,881	973,181
Total liabilities	379,595	369,083

At June 30, 2016, the Company had a cash balance of \$4.5 million, including restricted cash, compared to \$20.9 million at December 31, 2015. The decrease of \$2.0 million in the cash balance (excluding restricted cash), was primarily attributed to payments of \$16.0 million for property, plant and equipment, \$0.8 million for exploration and evaluation assets, \$4.5 million used in corporate operating activities and \$22.4 million for finance activities. These amounts are offset by \$6.9 million in proceeds from a loan from a shareholder, the release of \$14.4 million in restricted cash to fund long-term debt interest payments, and \$14.8 million in proceeds net of \$0.1 million in costs from the issuance of common shares.

At June 30, 2016, the Company's working capital deficiency was \$311.0 million, including the \$258.7 million current portion of senior secured notes (the "Notes") and \$6.9 million shareholder's loan, compared to a working capital deficiency of \$286.1 million at December 31, 2015. The Notes bear interest at a rate of 10% and have a potential maturity date of August 1, 2017, if certain conditions are met by February 1, 2016 as outlined below.

If by February 1, 2016, the Company has not: (1) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield



**Operational and Financial Highlights (Continued)**

maintenance premium, then the final maturity date of the Notes shall be August 1, 2016. The Company did not meet the requirements listed above by February 1, 2016, and as a result, the final maturity date of the Notes is August 1,

2016. The Company has presented the Notes as a current liability in the Condensed Interim Consolidated Statements of Financial Position as at June 30, 2016 (See subsequent events Note 22).

The Company had entered into a forbearance agreement with all of the Noteholders of the Notes (the “Noteholders”) maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the “Second Forbearance Agreement”) with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine had paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US\$10 million.

The Company is required to pay to the holders 10% interest on the outstanding Notes on August 1, 2016, and a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At June 30, 2016, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 105.952% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is \$15.5 million as at June 30, 2016 (December 31, 2015 - \$6.2 million) and \$9.3 million is recorded in the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for the six month period ended June 30, 2016 (year ended December 31, 2015 - \$6.2 million).

The following table summarizes the Company’s cash flow used in operations:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net loss	\$ (20,736)	\$ (19,122)	\$ (23,509)	\$ (49,961)
Finance costs	15,415	9,891	30,013	19,045
Unrealized foreign exchange loss/ (gain)	2,044	(3,160)	(14,607)	12,167
Contract provision expense	-	6,600	75	6,600
Interest income	(10)	(100)	(23)	(410)
Gain on sale of assets	-	(174)	(2)	(174)
Fair value adjustment on share purchase warrants	-	1,114	(3)	738
Depreciation	141	136	292	277
Share-based payment expense	(318)	528	(157)	954
Employee share savings plan	-	135	-	267
Cash flow used in operations	\$ (3,464)	\$ (4,152)	\$ (7,921)	\$ (10,497)

*Non-IFRS measurements are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The above table reconciles the non-IFRS measurements “Cash flow used in operations” from “Net loss”, the nearest IFRS measure. Cash flow used in operations is defined as net loss as reported, add back or deduct non-cash items including finance costs, share-based compensation, unrealized portion of foreign exchange adjustments, depreciation and impairment, interest income, fair value adjustment on share purchase warrants and employee share savings plan. Cash flow used in operations reconciles to “Net cash used in operating activities” from the Condensed Interim Consolidated Statements of Cash Flows after taking into account movements in non-cash working capital.*



**Operational and Financial Highlights (Continued)**

Cash flow used in operations in the three and six month periods ended June 30, 2016 totalled \$3.5 million and \$7.9 million compared to \$4.2 million and \$10.5 million for the same period in 2015. For the three month period ended June 30, 2016, the decrease of \$0.7 million compared to the same period in 2015 is due to a decrease of \$0.6 million in salaries, \$0.2 million decrease in legal and audit. For the six month period ended June 30, 2016, the decrease in cash flow used in operations of \$2.6 million is primarily due to a decrease of \$1.4 million in salaries, \$1.1 million decrease in other general and administrative costs, and partially offset by an increase of \$0.2 million in legal and audit expenses compare to the same periods in 2015.

**Summary of Quarterly Results**

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

('000s except for per share amounts)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Other income	10	18	155	1,023	(840)	686	5,464	10,143
Finance costs	15,415	14,598	17,857	10,641	9,891	9,154	8,735	2,031
Net loss for the period	20,736	2,773	325,761	30,413	19,122	30,839	12,280	1,338
Loss per share	0.00	0.00	0.08	0.01	0.00	0.01	0.00	0.00
Capital investments	11,028	1,169	19,051	31,100	51,422	44,018	27,510	31,987

**Results of Operations**

**Finance Costs**

	For the three months ended June 30, 2016		For the six months ended June 30, 2015	
Interest expense on senior notes	\$ 6,374	\$ 6,147	\$ 12,614	\$ 12,352
Interest expense on shareholder's loan	99	-	136	-
Amortization of financing transaction costs and discount	3,419	3,549	7,084	6,225
Redemption/yield maintenance premium	4,894	(45)	9,241	(45)
Financing related costs/(recovery)	379	(3)	428	-
Unwinding of discounts on provisions	250	243	510	513
	<u>\$ 15,415</u>	<u>\$ 9,891</u>	<u>\$ 30,013</u>	<u>\$ 19,045</u>

For the three month period ended June 30, 2016, finance costs increased by \$5.5 million primarily as a result of \$4.9 million of the redemption premium costs on the Notes, an increase of \$0.1 million on interest expense on shareholder's loan to the company, \$0.4 million on financing related costs, partially offset by a decrease of \$0.1 million on amortization of financing costs on Notes, compared to the same period in 2015. Finance costs for the six month period ended June 30, 2016 increased by \$11.0 million primarily as a result of \$9.3 million the redemption premium on the Notes, \$0.9 million of amortization of financing transaction costs on the Notes, an increase of \$0.1 million on interest expense on shareholder's loan and \$0.4 million on financing related cost compared to the same period in 2015.

**General and Administrative Costs**

	For the three months ended June 30,					
	2016			2015		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 2,234	\$ 626	\$ 1,608	\$ 3,537	\$ 1,350	\$ 2,187
Rent	520	176	344	573	228	345
Legal and audit	419	-	419	591	-	591
Other	1,121	22	1,099	1,188	34	1,154
	<u>\$ 4,294</u>	<u>\$ 824</u>	<u>\$ 3,470</u>	<u>\$ 5,889</u>	<u>\$ 1,612</u>	<u>\$ 4,277</u>



**General and Administrative Costs (Continued)**

	For the six months ended June 30,					
	2016			2015		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 4,944	\$ 1,402	\$ 3,542	\$ 7,683	\$ 2,746	\$ 4,937
Rent	1,071	378	693	1,157	466	691
Legal and audit	1,135	-	1,135	949	-	949
Other	1,967	40	1,927	3,067	70	2,997
	\$ 9,117	\$ 1,820	\$ 7,297	\$ 12,856	\$ 3,282	\$ 9,574

General and administrative expense, which include salaries, consulting and benefits, rent, legal and audit, and other general administrative costs, for the three month period ended June 30, 2016 decreased by \$0.8 million to \$3.5 million compared to \$4.3 million for the same period in 2015. The decrease is primarily a result of a decrease in salaries, consulting and benefits of \$0.6 million, and legal and audit cost of \$0.2 million, compared to the same period in 2015. For the six month period ended June 30, 2015, general and administrative expense decreased by \$2.3 million to \$7.3 million compared to \$9.6 million for the same period in 2015. The decrease is primarily a result of a decrease in salaries, consulting and benefits of \$1.4 million, and other general and administration cost of \$1.1 million compared to the same period in 2015 and partially offset by an increase in legal and audit costs of \$0.2 million.

During the three and six month periods ended June 30, 2016, the Company capitalized salaries, consulting and benefits, rent and other general administrative costs related to capital investment of \$0.8 million and \$1.8 million compared to \$1.6 million and \$3.3 million for the same period in 2015, respectively.

**Contract Provision**

As at June 30, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of \$6.8 million (December 31, 2015 - \$6.6 million). The \$6.8 million represents the maximum obligation required if the drilling rig is not utilized over the remaining term of the contract, which ends in the fourth quarter of 2016. At June 30, 2016, this obligation is broken into a \$2.6 million payable and a \$3.6 million provision (December 31, 2015 - \$3.1 million payable and \$3.5 million provision). For the three and six month periods ended June 30, 2016, the Company paid \$0.6 million against the obligation. Based on current market conditions and low utilization rates for drilling rigs, management concluded the future benefits of the contract are not currently quantifiable to offset its obligations under the contract. In future periods, if the drilling rig is utilized the provision will be adjusted accordingly.

**Share-based Compensation**

	For the three months ended June 30,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	\$ (276)	\$ 42	\$ (318)	\$ 900	\$ 372	\$ 528

  

	For the six months ended June 30,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	\$ (24)	\$ 133	\$ (157)	\$ 1,589	\$ 635	\$ 954

Share-based compensation expense for the three and six month periods ended June 30, 2016 was \$(0.3) million and \$(0.2) million compared to \$0.5 million and \$1.0 million for the same period in 2015, respectively. The fair value of share-based payments associated with the granting of stock options is recognized by the Company in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.



**Share-based Compensation (Continued)**

For the three and six month periods ended June 30, 2016, the Company capitalized a portion of the share-based compensation expense using the same methodology as the comparable periods of 2015.

**Other Income**

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Interest income	\$ 10	\$ 100	\$ 23	\$ 410
Gain on sale of assets	-	174	2	174
Fair value adjustment on share purchase warrants (loss)/gain	-	(1,114)	3	(738)
	\$ 10	\$ (840)	\$ 28	\$ (154)

Other income for the three and six month periods ended June 30, 2016 increased by \$0.8 million and \$0.2 million respectively. The change was primarily due to the absence of any gains on sale of assets, offset by a fair value adjustment on share purchase warrants for the same periods in 2015.

**Depreciation and Impairment**

Depreciation cost for the three and six month periods ended June 30, 2016 remained relatively consistent with the comparable periods in 2015. Depreciation expense was \$0.1 million for the three month period ended June 30, 2016 and 2015, and depreciation expense was \$0.3 million for the six month period ended June 30, 2016. Since the Company is in a development stage, its oil assets are not yet ready for use and therefore, not subject to depletion and depreciation.

As at June 30, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the exploration and evaluation (“E&E”) Assets or the West Ells cash generating unit (“CGU”).

**Income Taxes**

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and six month periods ended June 30, 2016 and 2015. Recognition of tax losses is based on the Company’s consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At June 30, 2016, the Company had total available tax deductions of approximately \$1.4 billion, with unrecognized tax losses that expire between 2028 and 2036.

**Liquidity and Capital Resources**

	June 30, 2016	December 31, 2015
Working capital deficit <sup>1, 2</sup>	\$ 311,024	\$ 286,121
Shareholders’ equity	595,286	604,098
	\$ 906,310	\$ 890,219

1. Included in working capital deficit at June 30, 2016, is restricted cash of Nil (December 31, 2015, \$14.4 million). Refer to Note 4 “cash and cash equivalents” in the condensed interim consolidated financial statements for additional disclosure on restricted cash.

2. Senior secured notes are considered current as at June 30, 2016 and have been included in the working capital deficit as the conditions to extend the maturity date to August 1, 2017 were not met by February 1, 2016.

On August 8, 2014, the Company completed an offering of US\$200 million Notes at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and have a potential maturity date of August 1, 2017, if certain conditions were met by February 1, 2016. Interest payments are payable semi-annually on February 1 and August 1 of each year.

If by February 1, 2016, the Company had not: (1) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield maintenance premium, then the final maturity date of the Notes would be August 1, 2016. The Company did not meet





### **Liquidity and Capital Resources (Continued)**

the requirements listed above by February 1, 2016, and as a result the final maturity date of the Notes is August 1, 2016. The Company has presented the Notes as a current liability in the Condensed Interim Consolidated Statements of Financial Position as at June 30, 2016.

The Company had entered into a forbearance agreement with all of the Noteholders of the Notes (the "Noteholders") maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the "Second Forbearance Agreement") with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. There can be no assurance provided that the Notes will be extended as described above. Pursuant to the Second Forbearance Agreement, Sunshine had paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US\$10 million.

The Company is required to pay to the holders 10% interest on the outstanding Notes on August 1, 2016, and a yield maintenance premium of 7.298% of the aggregate principal amount of Notes. The Company may redeem the Notes at any time before August 1, 2016, under the optional redemption section of the Note Indenture. The optional redemption schedule requires the Company to pay a percentage of the principal amount of the Note. The percentage ranges from 100.000% at August 31, 2015 and increases monthly to July 31, 2016, at which point the percentage is 106.615%. If the Company does not redeem before the maturity date of August 1, 2016, the Company upon maturity will only pay the 7.298% yield maintenance premium. At June 30, 2016, the optional redemption percentage, which is effectively an accrued yield maintenance premium, was 105.952% and accordingly the Company has recorded a yield maintenance premium based on this percentage. The total accrued liability for this premium is \$15.5 million as at June 30, 2016 (December 31, 2015 - \$6.2 million) and \$9.3 million is recorded in the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for the six month period ended June 30, 2016 (year ended December 31, 2015 - \$6.2 million).

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires standard reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

At June 30, 2016, the Company had incurred \$8.8 million (US\$6.8 million equivalent using the period end exchange rate) in liens during the ordinary course of business. There is a basket for permitted liens not to exceed US\$5.0 million, but the Company was in excess of this US\$5.0 million limit as at June 30, 2016. The Note Indenture also permits liens incurred in the ordinary course of business that are imposed by law. It is possible that the US\$6.8 million in liens existing as at June 30, 2016 may be sheltered by one or both of these exceptions, but there is also a possibility that the Company is not in compliance with these exceptions as at June 30, 2016. In any event, no Event of Default (as defined in the Note Indenture) has occurred. From time to time, the Company receives liens or claims on accounts payable balances. The Company continues to work toward resolution of any liens or claims.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US\$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US\$5.0 million to US\$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of June 30, 2016, the Company had incurred unsecured debt for a total of US\$5.3 million (CDN\$6.9 million equivalent) which is considered Permitted Debt.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1US = 1.3009CDN.

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



### **Liquidity and Capital Resources (Continued)**

For the three and six month periods ended June 30, 2016, the Company reported a net loss of \$20.7 million and \$23.5 million respectively. At June 30, 2016, the Company had a working capital deficiency of \$311.0 million including the \$258.7 million current portion of the senior secured notes and an accumulated shareholders' deficit of \$657.3 million.

The Company's trade payables total \$23.8 million at June 30, 2016. Included in trade payables are \$20.5 million payable that are greater than 60 days. Subsequent to June 30, 2016, the Company raised gross equity proceeds of \$31.4 million.

The Company's ability to continue as a going concern is dependent on achieving profitable operations and the ability to refinance current debt and access immediate additional financing. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 39% as at June 30, 2016 and 38% as at December 31, 2015, respectively.

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which is denominated in US dollars.

For the three and six month periods ended June 30, 2016, the Company had a foreign exchange loss of \$2.0 million and a gain of \$14.1 million compared to a \$3.2 million gain and \$13.4 million loss in the same period in 2015 respectively. The decrease in foreign exchange for three month periods ended June 30, 2016, was primarily due to a decrease of \$5.7 million unrealized loss on translation of the US denominated senior secured notes offset by \$0.6 million unrealized loss on US denominated cash balances. The \$27.4 million of increase in foreign exchange gain for six month periods ended June 30, 2016, was primarily due to \$31.0 million increase in unrealized gain on translation of the US denominated senior secured notes, and partially offset by \$4.4 million decrease in unrealized gain on US denominated cash balances.

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the three and six month periods ended June 30, 2016. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at June 30, 2016 would have been impacted by \$Nil. At June 30, 2016, the Company held US \$Nil of restricted cash and US\$0.1 million or \$0.2 million of cash, using the June 30, 2016 exchange rate of 1.3009, as cash, restricted cash and cash equivalents in the Company's US bank account.

The Company also owes US\$200.0 million or \$258.7 million in Notes using the exchange rate of 1.3009 at June 30, 2016. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, the carrying value of the current portion of the long-term debt at June 30, 2016, would have been impacted by approximately \$2.5 million.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2016 would have been impacted by HK\$0.1 million. At June 30, 2016, the Company held approximately HK\$11.1 million or \$1.8 million using the June 30, 2016 exchange rate of 5.9645, as cash in the Company's HK\$ bank account.

The Company had \$5.1 million deposit with the Alberta Energy Regulator to achieve compliance with the License Liability Program managed by the regulatory authority. When the accumulative bitumen production from West Ells surpasses 7,800 cubic meters, the Company will apply to have the entire deposit returned.



**Cash Flows Summary**

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Cash provided (used) in operating activities	\$ 1,568	\$ (3,830)	\$ (4,488)	\$ (9,361)
Cash provided (used) in investing activities	(10,454)	(50,316)	2,217	(84,949)
Cash provided (used) by financing activities	11,970	224	333	(10,862)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(138)	(758)	(101)	4,254
Net (decrease) / increase in cash	2,946	(54,680)	(2,039)	(100,918)
Cash and cash equivalents, beginning of period	1,560	89,859	6,545	136,097
Cash and cash equivalents, end of period	\$ 4,506	\$ 35,179	\$ 4,506	\$ 35,179

**Operating Activities**

Net cash provided (used) for operating activities for the three and six month periods ended June 30, 2016 was \$1.6 million and \$(4.5) million compared to cash used of \$(3.8) million and \$(9.4) million for the same periods in 2015, a change of \$5.4 million and \$4.9 million, respectively. Net cash used for operating activities includes movement in working capital of \$5.0 million and \$3.4 million for the three and six month periods ended June 30, 2016 compared to movement of \$0.3 million and \$1.1 million for the same period in 2015.

**Investing Activities**

Net cash used for investing activities for the three month period ended June 30, 2016 decreased by \$39.8 million to \$10.5 million compared to \$50.3 million for the three month ended June 30, 2015. The decrease was primarily due to payments for property, plant and equipment for the three month ended June 30, 2015 of \$38.9 million, related to the West Ells project in 2015. For the six month period ended June 30, 2016 net cash used for investing activities decreased by \$87.2 million to \$(2.2) million compared to \$85.0 million for the six month period in 2015. The decrease was primarily due to the changes of property, plant and equipment for the six month ended June 30, 2015 of \$88.2 million, related to the West Ells project in 2015, partially offset by a change in restricted cash of \$4.8 million due to the first interest payment on the Notes.

**Financing Activities**

Net cash generated for financing activities for the three month periods ended June 30, 2016 totalled \$12.0 million, which consisted of proceeds from issue of common shares of \$14.7 million, proceeds from shareholder's loan of \$1.2 million, partially offset by finance costs of \$11.7 million. Financing activities for the six month periods ended June 30, 2016 generated \$0.3 million, which consisted of proceeds from issue of common shares of \$14.7 million, proceeds from shareholder's loan of \$6.9 million, partially offset by finance costs of \$22.4 million.

**Commitments and Contingencies**

Information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. As at June 30, 2016, the Company's estimated commitments are as follows:

	Total	2016	2017	2018	2019	Thereafter
Repayment of long-term debt <sup>1</sup>	\$ 260,180	260,180	-	-	-	-
Interest payments on long-term debt <sup>2</sup>	13,009	13,009	-	-	-	-
Redemption premium <sup>3</sup>	18,988	18,988	-	-	-	-
Shareholder loan	6,941	6,941	-	-	-	-
Drilling, other equipment and contracts	6,646	6,340	224	82	-	-
Lease rentals <sup>4</sup>	8,793	695	1,250	1,250	1,243	4,355
Office leases	7,634	1,516	2,893	2,580	645	-
	\$ 322,191	307,669	4,367	3,912	1,888	4,355

1. Principal amount of Notes based on the period end exchange rate of \$1US = 1.3009 CDN and a maturity date of August 1, 2016, as the conditions to extend to August 1, 2017, have not been satisfied.

2. Based on 10% per annum and a maturity date of August 1, 2016, at the period end exchange rate of \$1US = 1.3009 CDN.



### **Commitments and Contingencies (Continued)**

3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2016. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2016. Using the period end exchange rate of \$1US=1.3009 CDN this premium amounts to \$18,988. At June 30, 2016, the Company had the option to redeem the Notes at 5.952% of the aggregate principal amount of the Notes outstanding which amounts to \$15,486 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2016 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require Sunshine to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the share subscription agreement. This constitutes a claim for \$40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the consolidated financial statements for the three and six month periods ended June 30, 2016 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated. In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

### **Transactions with Related Parties**

Balances and transactions between the Company and its subsidiaries, who are related parties, have been eliminated on consolidation.

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13.1), and he has also loaned the Company funds on an unsecured basis.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan is considered Permitted Debt under the Company's Notes as long as it does not exceed US\$5.0 million. The Loan has an interest rate of 6.0% per annum, can be drawn up to HK\$38.0 million and requires repayment in full within six months from the date of the receipt of the Loan. The first loan balance at June 30, 2016 is HK\$38.0 million (approximately \$6.37 million).

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan has the same interest rate and repayment terms as the Loan, except it requires repayment in full within three months from the date of the receipt of the Loan. The Second Loan balance at June 30, 2016 is HK\$3.4 million (approximately \$0.57 million).

### **Off-balance Sheet Arrangements**

The Company has certain lease agreements which are reflected in the table above under the heading "Commitments and contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at June 30, 2016, the Company did not have any other off-balance sheet arrangements.

### **Subsequent Events**

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common Shares (HK\$139,984,290 or CDN\$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares (the "Partial Closing") at a price of HK\$0.75 per Common Share (approximately CDN\$0.126 per Common Share). Upon the Partial Closing, the Company has received total gross proceeds of HK\$72,300,000 (approximately CDN\$12.2 million). The HK\$72.3 million was comprised of HK\$30.0 million in cash and HK\$42.3 million in repayment of the Loan and the Second Loan plus interest due at July 19, 2016.



### **Subsequent Events (Continued)**

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares (the "Second Partial Closing") at a price of HK\$0.75 per Common Share (approximately CDN\$0.126 per Common Share). Upon the Second Partial Closing, the Company has received total gross proceeds of HK\$114,000,000 (approximately CDN\$19.2 million). The remaining 111,786,667 Common Shares (HK\$83,840,000 or CDN\$14.09 million) subscribed for by Prime Union will be closed in one or more tranches.

On August 3, 2016, the Company announced an extension past August 2, 2016, for the remaining 111,786,667 Common shares (HK\$83,840,000 or CDN\$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union had advised Sunshine that it has been working diligently to obtain the regulatory approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union had also confirmed to Sunshine that it has the funds necessary to complete the subscription.

The Company had entered into a forbearance agreement with all of the Noteholders of the Notes (the "Noteholders") maturing on August 1, 2016. On August 11, 2016, the Company had entered into a further forbearance agreement (the "Second Forbearance Agreement") with all of Noteholders. Pursuant to the Second Forbearance Agreement, each of the Noteholders has agreed not to enforce its rights in respect of the Notes prior to 2:00 p.m. (New York time) on August 22, 2016, subject to certain restrictions, in order to provide the Corporation and the Noteholders with additional time to finalize definitive documentation effecting, among other things, entering into a term loan facility that extends the maturity date of the indebtedness owed to the Noteholders to August 1, 2017. Pursuant to the Second Forbearance Agreement, Sunshine has paid to the Noteholders all installment of interest due on the Notes on August 1, 2016 in the amount of US\$10 million.

### **Changes in Accounting Policies**

For the three and six month periods ended June 30, 2016, there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for the year ended December 31, 2015.

### **Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

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

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

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

#### *Going Concern*

These condensed interim consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

#### *Joint Control*

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

#### *Oil and Gas Reserves*

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments



### **Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)**

and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Reserve estimates are based on, among other things, forecasts of production, prices, cost estimates and economic conditions.

Reserve estimates are critical to many accounting estimates including:

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

Independent qualified reserve evaluators prepare reserve estimates for each property at least annually and issue a report thereon. The reserve estimates are reviewed by the Company's engineers and operational management familiar with the property. Judgment is used in order to determine if a project classified as E&E is technically feasible and commercially viable and should be transferred from E&E to property, plant and equipment.

#### *Impairment of Non-financial Assets*

The recoverable amounts of cash generating units ("CGU") and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and

assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

#### *Recoverability of Exploration and Evaluation costs*

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

#### *Decommissioning Costs*

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

#### *Share Purchase Warrants*

The Company recognises a liability for share purchase warrants with an exercise price in a currency other than the functional currency of the Company, which is remeasured at each reporting date. The initial recognition and subsequent remeasurement of the share purchase warrants is based on the estimated fair value of each share purchase at its grant date and each reporting date, the estimation of which requires management to make assumptions about future volatility of the Company's stock price, future interest rates and the timing with respect to exercise of the instruments. The effects of a change in one or more of these variables could result in a materially different fair value.



## **Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)**

### *Share-based Compensation*

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

### *Fair Value Measurement*

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

### *Deferred Income Taxes*

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

## **Risk Factors**

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2015, which is available at [www.sedar.com](http://www.sedar.com). The 2015 annual report of the Company is available at the Company's website at [www.sunshineoilsands.com](http://www.sunshineoilsands.com), and the website of the SEHK, [www.hkexnews.hk](http://www.hkexnews.hk). The Company's 2015 Annual Information Form is available at [www.sedar.com](http://www.sedar.com).

## **Disclosure Controls and Procedures**

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Qiping Men, Executive Director of the Board and Chief Financial Officer, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

## **Internal Controls over Financial Reporting**

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Qiping Men, Executive Director of the Board and Chief Financial Officer, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Company used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

No material changes in the Company's ICFR were identified during the three and six month periods ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.



## **Additional Stock Exchange Information**

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

### **Code of Corporate Governance Practice (the “Code”)**

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

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the “Hong Kong Listing Rules”), has been complied with following its public listing, save that the Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”)**

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

### **Purchase, Sale or Redemption of Sunshine’s Listed Securities**

#### *Class “A” Common Shares*

##### *General mandate*

On March 15, 2016, the Company entered into a subscription agreement (the “Subscription Agreement”) with Bright Hope Global Investments Limited (“Bright Hope Global”) under which Bright Hope Global agreed to subscribe for a total of 558,823,500 Class “A” Common Voting Shares of the Company (“Common Shares”) at a price of HK\$0.34 per Common Share or approximately CDN\$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK\$189,999,990 (approximately CDN\$30,902,347) (the “Placement”).

Completion of the Placement is subject to the fulfillment (or waiver) of certain regulatory conditions, which have been met.

Completion of the Placement would have to take place on or before May 14, 2016 (or such other date as the Company may choose) (the “Closing Date”). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Company takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Company and the Subscriber under the Subscription Agreement shall immediately and unconditionally cease and be null and void. There can be no assurance that the Placement will close as described.

On April 27, 2016, the Company completed the closing of 88,234,000 Common Shares (the “Partial Closing”) at a price of HK\$0.34 per Common Share (approximately CDN\$0.055 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK\$29,999,560 (approximately CDN\$4.9 million). In addition, an introduction fee of HK\$599,991 (approximately CDN\$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 470,589,500 Common Shares (HK\$160,000,430 or CDN\$26.0 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than May 14, 2016.

On May 16, 2016, the Company announced an extension of the remaining 470,589,500 Common Shares (HK\$160,000,430 or CDN\$26.0 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.





### **Purchase, Sale or Redemption of Sunshine's Listed Securities (Continued)**

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares (the "Partial Closing") at a price of HK\$0.34 per Common Share (approximately CDN\$0.056 per Common Share). Upon the Partial Closing, the

Company received total gross proceeds of HK\$20,016,140 (approximately CDN\$3.3 million). In addition, an introduction fee of HK\$400,323 (approximately CDN\$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing. The remaining 411,718,500 Common Shares (HK\$139,984,290 or CDN\$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common shares (HK\$139,984,290 or CDN\$23.1 million) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

#### *Specific mandate*

On May 2, 2016, the Board of Directors, having taken into account the current market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Common Shares (HK\$310,140,000 or approximately CDN\$53.5 million) subscribed by Prime Union (original subscription agreement was May 31, 2015) to August 2, 2016 from May 2, 2016. The remaining subscribed Common Shares can be closed in one or more tranches with the last tranche closing no later than August 2, 2016. Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares (the "Partial Closing") at a price of HK\$0.75 per Common Share (approximately CDN\$0.126 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK\$10,000,000 (approximately CDN\$1.68 million). The remaining 400,186,667 Common Shares (HK\$300,140,000 or CDN \$50,520,115) subscribed for by Prime Union will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares (the "Partial Closing") at a price of HK\$0.75 per Common Share (approximately CDN\$0.124 per Common Share). Upon the Partial Closing, the

Company received total gross proceeds of HK\$30,000,000 (approximately CDN\$4.96 million). The remaining 360,186,667 Common Shares (HK\$270,140,000 or approximately CDN \$44,627,635) subscribed for by Prime Union which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

On July 4, 2016, the Company announced an extension of the remaining 411,718,500 Common Shares (HK\$139,984,290 or CDN\$23.1 million at current exchange rates) subscribed for by Bright Hope Global Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

On July 21, 2016, the Company completed the closing of 96,400,000 Common Shares (the "Partial Closing") at a price of HK\$0.75 per Common Share (approximately CDN\$0.126 per Common Share at current exchange rates). Upon the Partial Closing, the Company has received total gross proceeds of HK\$72,300,000 (approximately CDN\$12.16 million). Placement expenses are estimated to be approximately HK\$100,000 (approximately CDN\$0.02 million). The remaining 263,786,667 Common Shares (HK\$197,840,000 or CDN\$33.3 million at current exchange rates) subscribed for by Prime Union will be closed in one or more remaining tranches, with the last tranche closing no later than Aug 2, 2016.

On August 3, 2016, the Company announced an extension of the remaining 111,786,667 Common shares (HK\$83,840,000 or CDN\$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union had advised Sunshine that it has been working diligently to obtain the Regulatory Approvals but requires additional time due to the complexity of applicable regulatory requirements. Prime Union had also confirmed to Sunshine that it has the funds necessary to complete the subscription.

#### *Post-IPO stock option plan*

The Company did not have any stock options exercised for the six month period ended June 30, 2016. During the year ended December 31, 2015, the Company issued 1,075,166 Class "A" common shares, from the exercise of 1,075,166 stock options at a weighted average price of \$0.10 per share for cash proceeds of \$0.1 million.



**Shares Outstanding**

As at August 11, 2016 and August 17, 2016, the Company had 4,679,102,437 Common Shares issued and outstanding,

**Summary of Financial Statements and Notes**

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiaries, for the three and six month periods ended June 30, 2016, together with comparative figures for the appropriate periods in 2015 as follows:

**Consolidated Statements of Financial Position**

*(Expressed in thousands of Canadian dollars)*

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
<i>Current assets</i>		
Cash	\$ 4,506	\$ 6,545
Restricted cash and cash equivalents	-	14,389
Trade and other receivables	1,418	2,253
Prepaid expenses and deposits	6,352	8,119
	<u>12,276</u>	<u>31,306</u>
<i>Non-current assets</i>		
Exploration and evaluation	292,427	290,945
Property, plant and equipment	670,178	650,930
	<u>962,605</u>	<u>941,875</u>
	<u>\$ 974,881</u>	<u>\$ 973,181</u>
<b>Liabilities and Shareholders' Equity</b>		
<i>Current liabilities</i>		
Trade and accrued liabilities	\$ 54,096	\$ 47,611
Provisions	3,566	3,492
Share purchase warrants	-	3
Current portion of long-term debt	258,697	266,321
Shareholder loan	6,941	-
	<u>323,300</u>	<u>317,427</u>
<i>Non-current liabilities</i>		
Provisions	56,295	51,656
	<u>379,595</u>	<u>369,083</u>
<b>Net current assets</b>	<u>(311,024)</u>	<u>(286,121)</u>
<b>Total assets less current liabilities</b>	<u>651,581</u>	<u>655,754</u>
<b>Shareholders' Equity</b>		
Share capital	1,189,708	1,174,987
Reserve for share-based compensation	62,886	62,910
Deficit	(657,308)	(633,799)
	<u>595,286</u>	<u>604,098</u>
	<u>\$ 974,881</u>	<u>\$ 973,181</u>



**Consolidated Statements of Operations and Comprehensive Loss**

(Expressed in thousands of Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
<i>Other income</i>				
Interest income	\$ 10	\$ 100	\$ 23	\$ 410
Gain on sale of assets	-	174	2	174
Fair value adjustment on share purchase warrants gains / (losses)	-	(1,114)	3	(738)
	10	(840)	28	(154)
<i>Expenses</i>				
Salaries, consulting and benefits	1,608	2,187	3,542	4,937
Rent	344	345	693	691
Legal and audit	419	591	1,135	949
Depreciation	141	136	292	277
Share-based payments	(318)	528	(157)	954
Finance costs	15,415	9,891	30,013	19,045
Foreign exchange (gains)/losses	2,038	(3,150)	(14,050)	13,357
Contract provision expense	-	6,600	142	6,600
Other	1,099	1,154	1,927	2,997
	\$ 20,746	\$ 18,282	\$ 23,537	\$ 49,807
Loss before income taxes	20,736	19,122	23,509	49,961
Income taxes	-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company	\$ 20,736	\$ 19,122	\$ 23,509	\$ 49,961
Basic and diluted loss per share	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01

**Notes**

**1. Basis of Preparation**

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

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

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



**Notes (Continued)**

**2. Segment Information**

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

**3. Trade Receivables**

The Company's trade and accruals and other receivables mainly arise from reimbursable expenditures and goods and services tax receivables due from government taxation authorities. These are summarized as follows:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Trade	\$ 1,357	\$ 1,184
Accruals and other receivables	5	56
Goods and services taxes receivable	56	1,013
	<b>\$ 1,418</b>	<b>\$ 2,253</b>

The Company allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables at the end of the reporting period:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
0 - 30 days	\$ 29	\$ 66
31 - 60 days	125	(2)
61 - 90 days	8	2
>90 days	1,195	1,118
	<b>\$ 1,357</b>	<b>\$ 1,184</b>

As at June 30, 2016, included in the Company's trade receivables were debtors with an aggregate carrying amount of \$1.4 million (December 31, 2015 - \$1.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances. Management believes the past due amounts will be collected.

**4. Trade Payables**

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Trade		
0 - 30 days	\$ 2,185	\$ 11,093
31 - 60 days	1,163	6,284
61 - 90 days	662	3,131
> 91 days	19,831	2,210
	<b>23,841</b>	<b>22,718</b>
Accrued liabilities	30,255	24,893
	<b>\$ 54,096</b>	<b>\$ 47,611</b>

**5. Dividends**

The Company has not declared or paid any dividends in respect of the three and six month periods ended June 30, 2016 (three and six month periods ended June 30, 2015 - \$Nil).

**Notes (Continued)****6. Income Taxes**

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Deferred tax assets (liabilities)		
Exploration and evaluation assets and property, plant and equipment	\$ (110,792)	\$ (94,478)
Decommissioning liabilities	15,200	13,947
Share issue costs	4,306	6,790
Non-capital losses	219,771	194,902
Deferred tax benefits not recognized	(128,485)	(121,161)
	<u>\$ -</u>	<u>\$ -</u>

The Company's non-capital losses of \$813,968 (December 31, 2015 - \$721,858), expire between 2028 and 2036.

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 27.0%. The Company had no assessable profit in Canada for the three and six month periods ended June 30, 2016. The Company files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. The estimated tax deductions available to the Company in Canada are approximately \$1.4 billion. The Company's tax losses will begin expiring in 2028.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three and six month periods ended June 30, 2016.

**Review of interim results**

The unaudited condensed interim consolidated financial statements for the Company for the three and six month periods ended June 30, 2016, were reviewed by the Audit Committee of the Company and approved by the Board. The interim review report was not issued as the independent auditor was not able to complete all of their outstanding procedures prior to the release of the unaudited condensed interim consolidated financial statements.

**Publication of Information**

This annual results announcement is published on the websites of SEDAR ([www.sedar.com](http://www.sedar.com)), the SEHK ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website at [www.sunshineoilsands.com](http://www.sunshineoilsands.com).

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