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阳光油砂  
SUNSHINE OILSANDS LTD.

**SUNSHINE OILSANDS LTD.**  
**陽光油砂有限公司\***

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

(HKEX: 2012)

**ANNOUNCEMENT OF RESULTS FOR THE THIRD QUARTER  
ENDED SEPTEMBER 30, 2017**

Sunshine Oilsands Ltd. is pleased to announce its financial results for the third quarter ended September 30, 2017. Please see the attached announcement for further information.

By Order of the Board of Sunshine Oilsands Ltd.

**Sun Kwok Ping**  
*Executive Chairman*

Hong Kong, November 7, 2017  
Calgary, November 7, 2017

*As at the date of this announcement, the Board consists of Mr. Kwok Ping Sun, Mr. Hong Luo, Mr. Qiping Men and Ms. Gloria Pui Yun Ho as executive directors; Mr. Michael John Hibberd, Ms. Linna Liu and Ms. Xijuan Jiang as non-executive directors; and Mr. Raymond Shengti Fong, Mr. Jeff Jingfeng Liu, Ms. Joanne Yan and Mr. Yi He as independent non-executive directors.*

*\*For identification purposes only*

**Sunshine Oilsands Ltd.**  
**Announcement of Results for the Third Quarter**  
**ended September 30, 2017**

3Q17 net loss narrowed to CAD\$12.8 million vs 2Q17  
CAD\$19.5 million and 3Q16 CAD\$26.6 million.

**CALGARY/HONG KONG** – Sunshine Oilsands Ltd. (the “**Corporation**” or “**Sunshine**”) (HKEX: 2012) today announced its financial results for the third quarter ended September 30, 2017. The Corporation’s condensed consolidated interim financial statements, notes to the condensed consolidated interim financial statements and management’s discussion and analysis have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and with The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) ([www.hkexnews.hk](http://www.hkexnews.hk)) and are available on the Corporation’s website ([www.sunshineoilsands.com](http://www.sunshineoilsands.com)). All figures used in this release are in Canadian dollars unless otherwise stated.

**MESSAGE TO SHAREHOLDERS**

In the third quarter ended September 30, 2017, Sunshine continues to see net loss narrowing down. During the quarter, the management team continued to ramp up production levels focused on cost efficiencies. On March 1, 2017, the Corporation achieved a key milestone. The Project commenced commercial production. Hence, effective March 1, 2017, the Corporation started recording revenue, expenses and depletion of the West Ells Project.

**Sunshine’s Capital Raising Activities**

For the three months ended September 30, 2017, the Company raised \$3.7 million in total permitted loans, of which \$2.3 million was from a related party, and \$1.4 million was from a third party.

Subsequent to September 30, 2017, on October 18, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD \$405,530 of which CAD \$369,032, was settled by the issuance of equity and the remaining balance was settled by cash. On October 18, 2017 the Company completed the closing a total of 8,934,755 shares to the Creditor at the issue price of HKD \$0.255 per Common Shares (approximately CAD \$0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The Common Shares are subject to a four-month holding period.

**Summary of Financial Figures**

**3Q17 net loss narrowed to CAD\$12.8 million vs 2Q17 CAD\$19.5 million and 3Q16 CAD\$26.6 million**

**For the third quarter of the 2017, the Corporation’s net loss narrowed to CAD \$12.8 million from CAD \$19.5 million for 2017 Q2 and from CAD \$26.6 million for 2016 Q3, representing a net loss per share of CAD \$0.002, CAD \$0.004, and CAD \$0.006 for the 2017 Q3, 2017 Q2 and 2016 Q3 periods respectively.**

The Corporation’s external auditor has not performed a review of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2017. As at September 30, 2017 and December 31, 2016, the Corporation notes the following selected balance sheet figures.

<i>(Canadian \$000s)</i>	<b>September 30, 2017</b>	December 31, 2016
Cash	1,703	\$ 13,635
Trade and other receivables	4,637	2,654
Prepaid expense and deposits	1,676	5,054
Exploration and evaluation assets	292,700	291,716
Property, plant and equipment	680,231	684,531
Total liabilities	399,260	390,135
Shareholders' equity	581,687	607,455

## **2017 Outlook**

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

### **Qiping Men**

*Interim Chief Executive Officer*

### **Gloria Ho**

*Chief Financial Officer*

## **ABOUT SUNSHINE OILSANDS LTD.**

The Corporation is a Calgary based public corporation, listed on the Hong Kong Stock Exchange since March 1, 2012. The Corporation was also listed on the Toronto Stock Exchange from November 16, 2012 to September 30, 2015, when it chose to voluntarily delist. The Corporation is focused on the development of its significant holdings of oil sands and heavy oil leases in the Athabasca oil sands region. The Corporation owns interests in oil sands and petroleum and natural gas leases in the Athabasca region of Alberta. The Corporation is currently focused on executing milestone undertakings in the West Ells project area. West Ells Phase 1 is operational and has an initial production target of 5,000 barrels per day.

For further enquiries, please contact:

Qiping Men

Interim Chief Executive Officer

Tel: (1) (403) 984-1450

Gloria Ho

Chief Financial Officer

Tel: + 852-3188-9298

Email: [investorrelations@sunshineoilsands.com](mailto:investorrelations@sunshineoilsands.com)

Website: [www.sunshineoilsands.com](http://www.sunshineoilsands.com)

## **FORWARD LOOKING INFORMATION**

This announcement contains forward-looking information relating to, among other things, (a) the future financial performance and objectives of Sunshine; (b) the plans and expectations of the Corporation; and (c)

the anticipated closings of the current private placements and the timing thereof. Such forward-looking information is subject to various risks, uncertainties and other factors. All statements other than statements and information of historical fact are forward-looking statements. The use of words such as “estimate”, “forecast”, “expect”, “project”, “plan”, “target”, “vision”, “goal”, “outlook”, “may”, “will”, “should”, “believe”, “intend”, “anticipate”, “potential”, and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on Sunshine’s experience, current beliefs, assumptions, information and perception of historical trends available to Sunshine, and are subject to a variety of risks and uncertainties including, but not limited to, those associated with resource definition and expected reserves and contingent and prospective resources estimates, unanticipated costs and expenses, regulatory approval, fluctuating oil and gas prices, expected future production, the ability to access sufficient capital to finance future development and credit risks, changes in Alberta’s regulatory framework, including changes to regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws or regulations and the impact thereof and the costs associated with compliance. Although Sunshine believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the assumptions and factors discussed in this announcement are not exhaustive and readers are not to place undue reliance on forward-looking statements as the Corporation’s actual results may differ materially from those expressed or implied. Sunshine disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise, subsequent to the date of this announcement, except as required under applicable securities legislation. The forward-looking statements speak only as at the date of this announcement and are expressly qualified by these cautionary statements. Readers are cautioned that the foregoing lists are not exhaustive and are made as at the date hereof. For a full discussion of the Corporation’s material risk factors, see the Corporation’s annual information form for the year ended December 31, 2016 and risk factors described in other documents we file from time to time with securities regulatory authorities, all of which are available on the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk), on the SEDAR website at [www.sedar.com](http://www.sedar.com) or the Corporation’s website at [www.sunshineoilsands.com](http://www.sunshineoilsands.com).



阳光油砂

SUNSHINE OILSANDS LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and nine months period ended September 30, 2017**



## **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 nine months ended September 30, 2017 is dated November 6, 2017. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and nine months period ended September 30, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.*

### **Overview**

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.35 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2016 was approximately 2.21 billion barrels, a 0.31 billion barrels decrease from the December 31, 2015 resource evaluation. The Company also has 276 million barrels of proved plus probable ("2P") reserves and 379 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2016. 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 approximately 1 million acres of oil sands and petroleum and natural gas leases, the Company has significant commercial development potential. Phase I (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is 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 has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

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

As at September 30, 2017, the Company had invested approximately \$1.27 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at September 30, 2017, the Company had \$1.7 million in cash.

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on continuing operations and development in West Ells, marketing bitumen blends at favorable prices, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that 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 TSX. The Company's shares continue to be listed for trading on the Stock Exchange of Hong Kong Limited ("SEHK").

### **Changes in Accounting Policies**

For the three and nine months period ended September 30, 2017 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, 2016.

### **Critical Accounting Policies and Estimates**

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

For a detailed discussion regarding to the Company's critical accounting policies and estimates, please refer to the Company's 2016 annual MD&A.



## **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, 2016, which is available at [www.sedar.com](http://www.sedar.com). The 2016 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 2016 Annual Information Form is available at [www.sedar.com](http://www.sedar.com).

## **Disclosure Controls and Procedures**

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

## **Internal Controls over Financial Reporting**

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

No material changes in the Company's ICFR were identified during the three and nine months period ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

## **ADVISORY SECTION**

### ***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.



**Non-IFRS Financial Measures**

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as operating netback, cash flow used in operations, operating loss and operating cash flow are non-GAAP measures. 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. 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.

**Cash Flow Used in Operations**

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

(\$ thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net cash used in operating activities	1,484	1,610	3,658	(2,878)
Add (deduct)				
Net change in non-cash operating working capital items	(7,645)	(4,302)	(23,567)	(7,735)
Cash flow used in operations	(6,161)	(2,692)	(19,909)	(10,613)

**Summary of Quarterly Results**

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

(\$ thousands except per share)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Bitumen production (bbl/d) <sup>1</sup>	1,781	1,732	1,796	-	-	-	-	-
Petroleum sales	8,781	8,907	3,005	-	-	-	-	-
Royalties	36	86	20	-	-	-	-	-
Transportation	3,272	3,264	1,153	-	-	-	-	-
Operating costs	5,547	6,360	2,216	-	-	-	-	-
Finance cost	11,687	13,974	14,467	13,901	18,606	15,415	14,598	17,857
Cash flow from operations <sup>2</sup>	(6,161)	(7,948)	(5,800)	(2,959)	(2,692)	(3,464)	(4,457)	(4,644)
Net loss	12,761	19,479	21,169	23,237	26,564	20,736	2,773	325,761
Per share - basic and diluted	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.08
Capital expenditures <sup>3</sup>	1,815	1,862	4,679	8,690	12,038	6,939	9,822	28,823
Total assets	980,947	991,696	1,000,484	997,590	985,274	974,881	964,751	973,181
Working capital deficiency <sup>4</sup>	343,136	333,488	325,736	319,304	314,853	311,024	298,144	286,121
Shareholders' equity	581,687	593,820	603,580	607,455	603,348	595,286	601,577	604,098

1. Bitumen production volume for 2017 Q1 only for the one month ended March 31, 2017.

2. Cash flow from operations is a non-GAAP measure, which is defined in the Advisory section of the MD&A.

3. Included payments for exploration and evaluation, property, plant and equipment.

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



**Bitumen Realization**

(\$ thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Dilbit revenue	8,781	-	20,693	-
Diluent blended <sup>1</sup>	(2,551)	-	(6,364)	-
Realized bitumen revenue <sup>2</sup>	6,230	-	14,329	-

1. Bitumen realization calculation for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.
2. Realized bitumen revenue is used to calculate operating netbacks.

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

During the three and nine months ended September 30, 2017, the Company's bitumen realization revenue was \$6.2 million and \$14.3 million, respectively. This is the third quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.

**Operating Netbacks**

(\$ thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Realized bitumen revenue	6,230	-	14,329	-
Transportation	(3,272)	-	(7,689)	-
Royalties	(36)	-	(142)	-
Net bitumen revenues	2,922	-	6,498	-
Operating costs	(5,547)	-	(14,123)	-
Operating netback	(2,625)	-	(7,625)	-

1. Operating netback calculation for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.
2. Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The Operating netback for the three and nine months ended September 30, 2017 was a net loss of \$2.6 million and \$7.6 million respectively. The main contributing factor to the loss are the operating costs. The majority of the operating costs at West Ells are fixed in nature, as a result, the operating costs per barrel of production should be reduced as production continues to ramp up at West Ells.

**Cash Flows Summary**

(\$ thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cash provided (used) in operating activities	1,484	1,610	3,658	(2,878)
Cash provided (used) in investing activities	(432)	(14,179)	(21,226)	(11,962)
Cash provided by financing activities	691	9,983	11,224	10,316
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(4,584)	(1,305)	(5,588)	(1,406)
Net (decrease) / increase in cash	(2,841)	(3,891)	(11,932)	(5,930)
Cash and cash equivalents, beginning of period	4,544	4,506	13,635	6,545
Cash and cash equivalents, end of period	1,703	615	1,703	615



## **Operating Activities**

Net cash provided by operating activities for the three month period ended September 30, 2017 was \$1.5 million compared to cash provided of \$1.6 million in 2016, a decrease of \$0.1 million. Net cash used for operating activities included an increase in non-cash working capital of \$7.6 million for the three months period ended September 30, 2017 compared to an increase in non-cash working capital of \$4.3 million for the same period in 2016.

Net cash provided by operating activities for the nine month period ended September 30, 2017 was \$3.7 million compared to cash used of \$2.9 million in 2016, an increase of \$6.6 million. Net cash provided by operating activities included an increase in non-cash working capital of \$23.6 million for the nine months period ended September 30, 2017 compared to an increase in non-cash working capital of \$7.7 million for the same period in 2016.

## **Investing Activities**

Net cash used in investing activities for the three months period ended September 30, 2017 primarily consisted of \$1.8 million in capital investment and a \$1.4 million increase in the net change in non-cash investing working capital. Net cash used in investing activities for the three months period ended September 30, 2016 primarily consisted of the payments for property, plant and equipment of \$12.0 million, and an \$2.2 million decrease in the net change in non-cash investing working capital.

Net cash used in investing activities for the nine months period ended September 30, 2017 primarily consisted of \$8.4 million in capital investment and a \$12.9 million decrease in the net change in non-cash investing working capital. Net cash used in investing activities for the nine months period ended September 30, 2016 primarily consisted of the release of restricted cash of \$14.4 million, offset by payments for property, plant and equipment of \$28.8 million, and an \$2.4 million increase in the net change in non-cash investing working capital.

## **Financing Activities**

Net cash provided by financing activities for the three month period ended September 30, 2017 totalled \$0.7 million, which consisted of proceeds from the loan of \$3.7 million, offset by the finance costs of \$11.4 million and an increase \$8.4 million in the net change in non-cash financing activities. Net cash provided by financing activities for the nine months period ended September 30, 2017 totalled \$11.2 million, which consisted of proceeds from the issuance of common shares of \$25.3 million less the payment of \$0.5 million in share issue cost, proceeds from the loan of \$5.5 million, offset by the principal repayment of \$1.9 million and the finance costs of \$39.3 million and an increase \$22.2 million in the net change in non-cash financing activities.

Net cash generated for financing activities for the three month periods ended September 30, 2016 totalled \$10.0 million, which consisted of proceeds from issue of common shares of \$31.3 million, partially offset by finance costs of \$15.3 million and the repayment of \$6.9 million of the shareholder's loan and an increase \$0.9 million in the net change in non-cash financing activities. Financing activities for the nine month periods ended September 30, 2016 generated \$10.3 million, which consisted of proceeds from issue of common shares of \$46.2 million, partially offset by finance costs of \$37.7 million and an increase \$2.0 million in the net change in non-cash financing activities.

## **Commitments and Contingencies**

Management estimated the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Company's commitments and contingencies, please refer the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and nine months period ended September 30, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016.

## **Income Taxes**

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and nine month periods ended September 30, 2017 and 2016. 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 September 30, 2017, the Company had total available tax deductions of approximately \$1.34 billion, with unrecognized tax losses that expire between 2028 and 2035.



**Capital Expenditures**

(\$ thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Exploration and evaluation	549	348	1,377	1,157
Property, plant and equipment				
West Ells	1,150	11,666	6,577	27,619
Company	116	24	402	23
	1,815	12,038	8,356	28,799

Capital expenditures made on exploration and evaluation assets and property, plant and equipment for three and nine months ended September 30, 2017 are \$1.8 million and \$8.4 million in total, respectively.

On March 1 2017, the Company commenced commercial production and ceased the capitalization. Hence, the capital expenditure for the three and nine month ended September 30, 2017 included Nil and \$0.4 million of the total capitalized general and administration, respectively. For the three and nine month ended September 30, 2016, the \$0.7 million and \$2.5 million of general and administration were capitalized into capital expenditures, respectively.

**Liquidity and Capital Resources**

(\$ thousands)	September 30, 2017	December 31, 2016
Working capital deficiency <sup>1</sup>	343,136	319,304
Shareholders' equity	581,687	607,455
	924,823	926,759

1. Senior secured notes are considered current as at September 30, 2017 and have been included in the working capital deficit as the maturity date is August 1, 2018.

On August 8, 2014, the Company completed an offering of USD \$200 million senior secured notes (the "Notes") at an offering price of USD \$938.01 per USD \$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a maturity date of August 1, 2016, if certain conditions were met as explained below.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD \$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of \$19.1 million (Note 10) due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes ("YMP") and repurchase of USD \$22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD \$25 million in principal amount on February 1, 2017. These payments were not made.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Bondholders. The Bondholders agreed to waive the liability of the Company



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

in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD \$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above USD \$5.2 million was paid.
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD \$8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On July 28, 2017, the Company engaged in discussions with the bondholders to re-enter forbearance with respect to the senior notes.

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

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

As of November 6, 2017, only USD \$1.4 million was applied to the principal repayment, and the repayment of USD \$1.8 million by October 30, 2017 is yet to be paid.

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

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US\$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US\$5.0 million to US\$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of September 30, 2017, the Company had incurred unsecured third party debt for a total of US\$2.5 million (CDN\$3.1 million equivalent) and incurred related party debt for a total of US\$1.8 million (CDN\$2.2 million equivalent) which are considered Permitted Debt.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At September 30, 2017, the Company had incurred \$8.1 million (USD \$6.5 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.2480 CAD.



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

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

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes. Management continually monitors the Company's financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders, creditors, and prospective investors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the twelve months following September 30, 2017.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

For the three and nine months ended September 30, 2017, the Company reported a net loss of \$12.8 million and \$53.4 million. At September 30, 2017, the Company had a working capital deficiency of \$343.1 million including senior notes of \$247.9 million and an accumulated deficit of \$760.5 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 41% as at September 30, 2017, compared to 39% as at December 31, 2016.

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 and Hong Kong dollars.

For the three and nine month periods ended September 30, 2017, the Company had a foreign exchange gain of \$9.8 million and \$18.4 million compared to a \$2.0 million loss and \$12.1 million gain in the same period in 2016 respectively. The increase of \$11.7 million in foreign exchange for three month periods ended September 30, 2017, was primarily due to an increase of \$10.4 million unrealized gain on translation of the US denominated senior secured notes. The \$6.3 million of increase in foreign exchange gain for nine month periods ended September 30, 2017, was primarily due to \$4.7 million increase in unrealized gain on translation of the US denominated senior secured notes, and \$1.0 million increase in unrealized foreign cash and accounts payable.

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 nine months ended September 30, 2017. 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 September 30, 2017 would have been impacted by Nil and the carrying value of the senior notes and loans at September 30, 2017 would have been impacted by \$2.5 million. At September 30, 2017 the Company held approximately USD \$0.01 million or \$0.02 million of cash, using the September 30, 2017 exchange rate of \$1USD = \$1.2480 CAD, as cash and cash equivalents in the Company's US bank account.

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 September 30, 2017 would have been impacted by approximately \$0.01 million and the carrying value of the loans at September 30, 2017 would have been impacted by \$0.04 million. At September 30, 2017, the Company held, after recent equity closings, approximately HKD



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

\$8.3 million or \$1.3 million using the September 30, 2017 exchange rate of \$1CAD = \$6.2593 HKD, as cash in the Company's HKD bank account.

### **Transactions with Related Parties**

For the nine months ended September 30, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.4 million (the nine months ended September 30, 2016 – Nil) for management and advisory services.

During the nine months ended September 30, 2017 and year 2016, the Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company and he has also loaned the Company funds on an unsecured basis.

On August 24, 2017 the Company signed an unsecured loan agreement (the "Loan") with Prime Union Enterprises Limited ("Prime Union"). Prime Union is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan amount is HKD \$ 14,058,885 (approximately CAD \$2.27 million), and had an interest rate of 6.0% per annum and required repayment in full within three months from the date of the receipt of the Loan.

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 was considered Permitted Debt under the Company's Notes as long as it did not exceed USD \$5.0 million. The Loan had an interest rate of 6.0% per annum, could be drawn up to HKD \$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the Loan, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements (Note 13).

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

The Company has certain lease agreements which are reflected in the table included under the heading "Commitments and contingences" in the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 and 2016. No asset or liability value was assigned to these agreements on the Company's balance sheet. As at September 30, 2017, the Company did not have any other off-balance sheet arrangements.

### **Subsequent Events**

On October 18, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD \$405,530 of which CAD \$369,032, being partial debt, would be settled by the issuance and the remaining balance would be settled by cash. On October 18, 2017 the Company completed the closing a total of 8,934,755 shares to the Creditor at the issue price of HKD \$0.255 per Common Shares (approximately CAD \$0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The Common Shares are subject to a four-month holding period.

On October 18, 2017, the Company gave the notice to Deloitte LLP to terminate their appointment as auditor of the Company for the purpose of maintaining good corporate governance. The Board of Directors (the "Board") was resolved, with the recommendation from audit committee of the Board, to appoint Pricewaterhouse Coopers LLP as the new auditor of the Company with effect from October 18, 2017 and to hold office until the conclusion of the next annual general meeting of the Company. On October 20, 2017, Deloitte LLP has confirmed that there are no circumstances connected with its resignation that need to be brought to the attention of Shareholders and creditors of the Company. The board and audit committee of the Company have confirmed that there are no disagreement or unresolved matters between the Company and Deloitte LLP, and that they are not aware of any matter in connection with the resignation of Deloitte LLP that needs to be brought to the attention of the Shareholders or creditors of the Company.



**Movements in Stock Options**

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Company during the period ended September 30, 2017.

Name	December 31,					September 30, 2017
	2016	Granted	Exercised	Forfeited	Expired	
Mr. Kwok Ping Sun	46,679,000	-	-	-	-	46,679,000
Mr. Michael Hibberd	58,439,000	-	-	-	(7,150,000)	51,289,000
Mr. Hong Luo	23,000,000	-	-	-	-	23,000,000
Ms. Gloria Ho <sup>(1)</sup>	5,000,000	-	-	-	-	5,000,000
Mr. Qiping Men	22,555,556	-	-	-	-	22,555,556
Mr. Raymond Fong	1,510,000	1,500,000	-	-	(150,000)	2,860,000
Mr. Yi He	1,000,000	1,500,000	-	-	-	2,500,000
Ms. Joanne Yan	1,000,000	1,500,000	-	-	-	2,500,000
Ms. Linna Liu <sup>(2)</sup>	-	-	-	-	-	-
Mr. Jingfang Liu <sup>(3)</sup>	-	-	-	-	-	-
Ms. Xijuan Jiang	1,000,000	-	-	-	-	1,000,000
Mr. Jianzhong Chen <sup>(4)</sup>	1,000,000	-	-	-	-	1,000,000
Dr. Qi Jiang <sup>(5)</sup>	30,000,000	-	-	(30,000,000)	-	-
Mr. Gerald Stevenson <sup>(6)</sup>	1,510,000	1,500,000	-	-	(150,000)	2,860,000
Sub-total for Directors	192,693,556	6,000,000	-	(30,000,000)	(7,450,000)	161,243,556
Sub-total for other share option holders	66,046,913	8,069,058	-	(25,733,676)	(1,330,888)	47,051,407
<b>Total</b>	<b>258,740,469</b>	<b>14,069,058</b>	<b>-</b>	<b>(55,733,676)</b>	<b>(8,780,888)</b>	<b>208,294,963</b>

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

Please refer to our consolidated financial statements included in the 2016 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2016.

**Fair Value of Share Options Granted**

The weighted average fair value of the share options granted for the period ended September 30, 2017 was \$0.11 (year ended December 31, 2016 - \$0.13). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2017 and 2016. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 14.64% to 14.76% for the nine months ended September 30, 2017.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the nine month ended September 30, 2017 and year ended December 31, 2016.

Input Variables	Period ended September 30, 2017	Year ended December 31, 2016
Grant date share price (\$)	0.044-0.05	0.058-0.10
Exercise Price (\$)	0.044-0.05	0.058-0.10
Expected volatility (%)	73.23-74.72	66.40-70.70
Option life (years)	3.76-3.79	3.76-4.07
Risk-free interest rate (%)	0.93-1.23	0.56-0.88
Expected forfeitures (%)	14.64-14.76	13.39-14.65



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

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

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

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited ("Zhengwei") under which Zhengwei agreed to subscribe for a total of up to 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HKD \$0.29 per Common Share or approximately CAD \$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD \$43.5 million (approximately CAD \$7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares at a price of HKD \$0.29 (approximately CAD \$0.050 per Common Share). The Company received total gross proceeds of HKD \$11.6 million (approximately CAD \$2.0 million). The subscription agreement expired on the date of this announcement and hence the time for the completion of the remaining 110,000,000 Common Shares has lapsed.

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

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

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

On October 18, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD \$405,530 of which CAD \$369,032, being partial debt, would be settled by the issuance and the remaining balance would be settled by cash. On October 18, 2017 the Company completed the closing a total of 8,934,755 shares to the Creditor at the issue price of HKD \$0.255 per Common Shares (approximately CAD \$0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The Common Shares are subject to a four-month holding period.

The proceeds from the above placements were mainly used (i) for general working capital of the Company and (ii) as funds for future development of the existing business of the Company, including funding the operation costs of the West EIs project.

During the nine months ended September 30 2017, the Company has not purchased or redeemed any of its listed securities.

### **Employees**

As at September 30, 2017, the Company has a total of 51 full-time employees. For the three and nine months ended September 30, 2017, the total staff costs amounted to CAD\$ 2.1 million and CAD \$6.3 million, respectively.



## **Shares Outstanding**

As at November 6, 2017, the Company had 5,567,271,113 Common Shares and 208,294,963 stocks options issued and outstanding.

## **Dividends**

The Company has not declared or paid any dividends in respect of the nine months period ended September 30, 2017 (nine months period ended September 30, 2016 - \$Nil).

## **Operational Update**

### ***West Ells***

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

For nine month ended September 30, 2017, the average bitumen production was 1,752 bbls/day. Diluent is blended at a 19.1% volumetric rate with the bitumen as part of the production process to create the marketable "Dilbit" blend product, and the average dilbit sales volume was 2,164 bbls/day.

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

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2017. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, additional significant 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 by the joint venture partner due to low oil prices.

## **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.



## **SUNSHINE OILSANDS LTD.**

### **Review of interim results**

The condensed consolidated interim financial statements for the Company for the three and nine month periods ended September 30, 2017, were reviewed by the Audit Committee of the Company and approved by the Board.

### **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.*

### **Outlook**

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



阳光油砂

SUNSHINE OILSANDS LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three and nine months ended September 30, 2017 and 2016**

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

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



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

		<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>			
<i>Current assets</i>			
Cash	4	\$ 1,703	\$ 13,635
Trade and other receivables	5	4,637	2,654
Prepaid expenses and deposits	6	1,676	5,054
		<u>8,016</u>	<u>21,343</u>
<i>Non-current assets</i>			
Exploration and evaluation	7	292,700	291,716
Property, plant and equipment	8	680,231	684,531
		<u>972,931</u>	<u>976,247</u>
		<u>\$ 980,947</u>	<u>\$ 997,590</u>
<b>Liabilities and Shareholders' Equity</b>			
<i>Current liabilities</i>			
Trade and accrued liabilities	9	\$ 97,919	\$ 71,526
Provisions	11	-	581
Loans	10,24	5,325	-
Senior notes	10	247,908	268,540
		<u>351,152</u>	<u>340,647</u>
<i>Non-current liabilities</i>			
Provisions	11	48,108	49,488
		<u>399,260</u>	<u>390,135</u>
<b>Shareholders' Equity</b>			
Share capital	13	1,272,090	1,247,302
Reserve for share-based compensation		70,115	67,262
Deficit		(760,518)	(707,109)
		<u>581,687</u>	<u>607,455</u>
		<u>\$ 980,947</u>	<u>\$ 997,590</u>

Going concern (Note 2)  
Commitments and contingencies (Note 26)  
Subsequent events (Note 28)

Approved by the Board

"Joanne Yan"  
Independent Non-Executive Director

"Qiping Men"  
Executive Director

See accompanying notes to the Condensed Consolidated Interim Financial Statements.



**Condensed Consolidated Statements of Operations and Comprehensive Loss**

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
<b>Revenues and Other Income</b>					
Petroleum sales, net of royalties	15	\$ 8,745	\$ -	\$ 20,551	\$ -
Other income	16	-	12	10	40
		<u>8,745</u>	<u>12</u>	<u>20,561</u>	<u>40</u>
<b>Expenses</b>					
Diluent	17	2,551	-	6,364	-
Transportation	18	3,272	-	7,689	-
Operating	19	5,547	-	14,123	-
General and administrative	20	3,543	2,959	11,699	10,256
Finance costs	21	11,687	18,606	40,128	48,619
Stock based compensation	14.2	628	2,949	2,836	2,792
Foreign exchange (gains)/losses	23.3	(9,762)	1,933	(18,373)	(12,117)
Contract provision expense	11.2	-	-	-	142
Depletion, depreciation and impairment	7, 8	4,040	129	9,504	421
		<u>\$ 21,506</u>	<u>\$ 26,576</u>	<u>\$ 73,970</u>	<u>\$ 50,113</u>
Loss before income taxes		12,761	26,564	53,409	50,073
Income taxes	12	-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company		<u>\$ 12,761</u>	<u>\$ 26,564</u>	<u>\$ 53,409</u>	<u>\$ 50,073</u>
Basic and diluted loss per share	22	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

See accompanying notes to Condensed Consolidated Interim Financial Statements.



**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
(Expressed in thousands of Canadian dollars)

	Notes	Reserve for share based compensation	Share capital	Deficit	Total
Balance, December 31, 2016		\$ 67,262	\$ 1,247,302	\$ (707,109)	\$ 607,455
Net loss and comprehensive loss for the year		-	-	(53,409)	(53,409)
Issue of common shares	13.1	-	25,315	-	25,315
Recognition of share-based compensation	14.2	2,853	-	-	2,853
Share issue costs, net of deferred tax (\$Nil)	13.1	-	(527)	-	(527)
<b>Balance, September 30, 2017</b>		<b>\$ 70,115</b>	<b>\$ 1,272,090</b>	<b>\$ (760,518)</b>	<b>\$ 581,687</b>
Balance, December 31, 2015		\$ 62,910	\$ 1,174,987	\$ (633,799)	\$ 604,098
Net loss and comprehensive loss for the period		-	-	(50,073)	(50,073)
Issue of common shares	13.1	-	46,136	-	46,136
Recognition of share-based compensation	14.2	3,269	-	-	3,269
Issue of shares upon exercise of share options	13.1	-	15	-	15
Reserve transferred on exercise of stock options	13.1	(10)	10	-	-
Share issue costs, net of deferred tax(\$Nil)	13.1	-	(97)	-	(97)
<b>Balance, September 30, 2016</b>		<b>\$ 66,169</b>	<b>\$ 1,221,051</b>	<b>\$ (683,872)</b>	<b>\$ 603,348</b>

See accompanying notes to the Condensed Consolidated Interim Financial Statements.



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

	Notes	Three months ended		Nine months ended	
		September 30,		September 30,	
		2017	2016	2017	2016
<i>Cash flows from operating activities</i>					
Net loss		\$ (12,761)	\$ (26,564)	\$ (53,409)	\$ (50,073)
Finance costs	21	11,687	18,606	40,128	48,619
Unrealized foreign exchange losses/(gains)	23.3	(9,755)	2,200	(18,377)	(12,407)
Contract provision expense	11.2	-	-	(581)	75
Interest income	16	-	(12)	(10)	(35)
Gain on sale of assets	8, 16	-	-	-	(2)
Fair value adjustment on share purchase warrants	13.2	-	-	-	(3)
Depletion and depreciation	7, 8	4,040	129	9,504	421
Share-based payment expense	14.2	628	2,949	2,836	2,792
Movement in non-cash working capital	27	7,645	4,302	23,567	7,735
<b>Net cash provided by (used in) operating activities</b>		<b>1,484</b>	<b>1,610</b>	<b>3,658</b>	<b>(2,878)</b>
<i>Cash flows from investing activities</i>					
Interest received		-	12	10	35
Payments for exploration and evaluation assets	7	(549)	(348)	(1,377)	(1,157)
Proceeds from sale of assets		-	-	-	2
Payments for property, plant and equipment	8	(1,266)	(11,690)	(6,979)	(27,642)
Release of restricted cash to fund long-term debt interest payments	4	-	-	-	14,389
Movement in non-cash working capital	27	1,383	(2,153)	(12,880)	2,411
<b>Net cash used in investing activities</b>		<b>(432)</b>	<b>(14,179)</b>	<b>(21,226)</b>	<b>(11,962)</b>
<i>Cash flows from financing activities</i>					
Proceeds from issue of common shares	13.1	-	31,333	25,315	46,151
Payment for share issue costs	13.1	-	-	(527)	(97)
Payment for finance costs	21	(11,427)	(15,281)	(39,323)	(37,700)
Payment for the notes principal	10	(25)	-	(1,857)	-
Proceeds from loans	10,24	3,721	(6,941)	5,454	-
Movement in non-cash working capital	27	8,422	872	22,162	1,962
<b>Net cash provided by financing activities</b>		<b>691</b>	<b>9,983</b>	<b>11,224</b>	<b>10,316</b>
Effect of exchange rate changes on cash held in foreign currency	23.3	(4,584)	(1,305)	(5,588)	(1,406)
Net (decrease) / increase in cash and cash equivalents, beginning of period		(2,841)	(3,891)	(11,932)	(5,930)
<b>Cash and cash equivalents, end of period</b>		<b>\$ 1,703</b>	<b>\$ 615</b>	<b>\$ 1,703</b>	<b>\$ 615</b>

See accompanying notes to the Condensed Consolidated Interim Financial Statements.



**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months and nine months ended September 30, 2017 and 2016  
(Expressed in thousands of Canadian dollars, unless otherwise indicated)  
(Unaudited)

**1. Company information**

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

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

On July 14, 2015, Boxian Investments Limited (“Boxian”) was incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The address of the principal place of business for Boxian is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As of September 30, 2017, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

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

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

**2. Basis of preparation**

***Going concern***

These Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. The Company has historically met its day to day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share issuances and debt.

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes (Note 10). Management continually monitors the Company’s financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following September 30, 2017.

The timing and extent of forecast capital and operating expenditures is based on the Company’s 2017 budget and on management’s estimate of expenditures expected to be incurred beyond 2017. The Company has a significant degree of control and flexibility over both the extent and timing of expenditures under its future capital investment program.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.



## 2. Basis of preparation (Continued)

The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Group's ability to continue as a going concern.

On September 9, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Wells Fargo Bank N.A., as administrative agent, and certain bondholders (collectively "the Bondholders") in respect of USD \$200 million of notes made under a note agreement dated August 8, 2014. Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising the rights and remedies arising from the Company's failure to pay cash interest and principal payments due on August 1, 2016.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD \$25 million in principal amount on February 1, 2017. These payments were not made.

Sunshine was in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine had failed to pay the Yield Maintenance Premium ("YMP") of USD \$14,596,000 payable on October 16, 2016;
- Sunshine failed to repay USD \$25,000,000 of the Senior Notes principal balance payable on February 1, 2017;
- Sunshine failed to pay the 2.50% Forbearance Fees of USD \$ 2,400,000 payable on February 1, 2017;
- Sunshine failed to pay accrued interest equal in aggregate to USD \$10,000,000 payable on February 1, 2017 as contemplated by the Forbearance Agreement;
- Sunshine did not maintain minimum liquidity levels of USD \$10,000,000 as contemplated in the Forbearance Agreement.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement (the "FRA") and a Note Exchange Agreement (the "NEA") with the Bondholders. The Bondholders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD \$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD \$5.2 million was paid.
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD \$8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal up to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On July 28, 2017, the Company engaged in discussions with the bondholders to re-enter forbearance with respect to the senior notes.

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

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



**2. Basis of preparation (Continued)**

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

As of November 6, 2017, only USD \$1.4 million was applied to the principal repayment, and the repayment of USD \$1.8 million by October 30, 2017 is yet to be paid.

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

The Condensed Consolidated Interim Financial Statements have been prepared on a basis which asserts that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these Financial Statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and balance sheet classifications may be necessary and such adjustments could be material. Specifically, in the absence of additional financing and the restructuring of current debt (Note 10) the Company would be unlikely to be able to continue the development of the West Ells project and the Company would be required to consider divestiture of the West Ells project and other exploration assets. Such curtailment of activity would likely materially and negatively impact the Company's assessment of the carrying values of assets and liabilities associated with the West Ells project.

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

**2.1 Statement of compliance**

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The Condensed Consolidated Interim Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 23). The Condensed Consolidated Interim Financial Statements are presented in Canadian Dollars ("\$"), which is the functional currency of the Company.

**3. Significant accounting policies**

For the three and nine months ended September 30, 2017 there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for year ended December 31, 2016.

**4. Cash and cash equivalents**

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
<i>Current asset</i>				
Cash <sup>1</sup>	\$	1,703	\$	13,635
	\$	1,703	\$	13,635

1. The Company's cash consists of cash held in bank accounts that earn interest at varying interest rates of between 0.1% and 1.55%.

**5. Trade and other receivables**

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
Petroleum receivable	\$	3,070	\$	1,048
Trade receivable		1,534		1,434
Other		33		172
	\$	4,637	\$	2,654

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:



**5. Trade and other receivables (Continued)**

	September 30, 2017		December 31, 2016	
0 - 30 days	\$	3,215	\$	1,205
31 - 60 days		138		1
61 - 90 days		3		11
>90 days		1,281		1,437
	\$	4,637	\$	2,654

**6. Prepaid expenses and deposits**

	September 30, 2017		December 31, 2016	
Prepaid expenses	\$	634	\$	1,067
Deposits		1,042		3,987
	\$	1,676	\$	5,054

As at September 30, 2017, the deposits include Nil held with the Alberta Energy Regulator for the Licensee Liability Rating Program (on February 22, 2017, \$3.2 million was refunded in total). The remaining deposits include ordinary business deposits of \$0.8 million.

**7. Exploration and evaluation**

<b>Balance, December 31, 2015</b>	\$	290,945
Capital expenditures		1,344
Non-cash expenditures <sup>1</sup>		(573)
<b>Balance, December 31, 2016</b>	\$	291,716
Capital expenditures		1,377
Non-cash expenditures <sup>1</sup>		(393)
<b>Balance, September 30, 2017</b>	\$	292,700

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

Exploration and evaluation assets are comprised of undeveloped land and oil sands evaluation projects pending the determination of technical feasibility and commercial viability. As at September 30, 2017, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at previous year) of the E&E Assets.

**8. Property, plant and equipment**

	Crude oil assets		Corporate assets		Total
<b>Cost</b>					
<b>Balance, December 31, 2015</b>	\$	853,848	\$	4,462	\$ 858,310
Capital expenditures		35,970		175	36,145
Non-cash expenditures <sup>1</sup>		(1,997)		-	(1,997)
<b>Balance, December 31, 2016</b>	\$	887,821	\$	4,637	\$ 892,458
Capital expenditures		6,577		402	6,979
Non-cash expenditures <sup>1</sup>		(1,775)		-	(1,775)
<b>Balance, September 30, 2017</b>	\$	892,623	\$	5,039	\$ 897,662

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

	Crude oil assets		Corporate assets		Total
<b>Accumulated depletion, depreciation and impairment</b>					
<b>Balance, December 31, 2015</b>	\$	205,000	\$	2,380	\$ 207,380
Depletion and depreciation expense		-		547	547
<b>Balance, December 31, 2016</b>	\$	205,000	\$	2,927	\$ 207,927
Depletion and depreciation expense		9,133		371	9,504
<b>Balance, September 30, 2017</b>	\$	214,133	\$	3,298	\$ 217,431
Carrying value, December 31, 2016	\$	682,821	\$	1,710	\$ 684,531
<b>Carrying value, September 30, 2017</b>	\$	678,490	\$	1,741	\$ 680,231



### 8. Property, plant and equipment (Continued)

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at the time, the Company ceased capitalization of petroleum revenue, royalties, diluent, transportation, and operating expenses relating to West Ells Project I and has included these amounts in the statement of comprehensive income (loss) for the three and nine months ended September 30, 2017.

The Company also commenced recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three and nine months ended September 30, 2017. Prior to March 1, 2017, the West Ells Phase I assets of \$687.1 million were not being depleted. In determining the unit-of-production depletion charge on recoverable reserves, future development costs of \$2,702 million were included in property, plant and equipment.

During the nine months ended September 30, 2017, the Company capitalized directly attributable costs of \$0.02 million for share-based compensation (nine months ended September 30, 2016 - \$0.5 million) and \$0.4 million for general and administrative costs (nine months ended September 30, 2016 - \$2.5 million).

As at September 30, 2017, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at the previous year end) of the West Ells Cash Generating Unit (CGU).

### 9. Trade and accrued liabilities

	September 30, 2017		December 31, 2016	
Trade	\$	20,829	\$	27,341
Accrued liabilities		77,090		44,185
	\$	97,919	\$	71,526

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

	September 30, 2017		December 31, 2016	
Trade				
0 - 30 days	\$	1,914	\$	4,514
31 - 60 days		572		1,343
61 - 90 days		330		750
> 91 days		18,013		20,734
		20,829		27,341
Accrued liabilities		77,090		44,185
	\$	97,919	\$	71,526

### 10. Senior notes

	September 30, 2017		December 31, 2016	
Senior secured notes	\$	247,908	\$	268,540
Discount on notes		(16,168)		(16,168)
Financing transaction costs on notes		(11,846)		(11,846)
Amortization of financing transaction costs and discount		28,014		28,014
Balance, end of period	\$	247,908	\$	268,540

On August 8, 2014, the Company completed an offering of USD \$200 million senior secured notes (the "Notes") at an offering price of USD \$938.01 per USD \$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD \$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating forbearance with the noteholders.



## 10. Senior notes (Continued)

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of \$19.1 million due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD \$22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD \$25 million in principal amount on February 1, 2017. These payments were not made.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Bondholders. The Bondholders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD \$2.8 million representing 20% of the YMP originally due on August 1, 2016; and
- Payment of USD \$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD \$5.2 million was paid;
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD \$8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD \$9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD \$5.0 million on April 30, 2017, USD \$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On July 28, 2017, the Company engaged in discussions with the bondholders to re-enter forbearance with respect to the senior notes.

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

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

As of November 6, 2017, only USD \$1.4 million was applied to the principal repayment and the repayment of USD \$1.8 million by October 30, 2017 is yet to be paid.

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



## 10. Senior notes (Continued)

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 September 30, 2017, the Company had incurred unsecured third party debt for a total of US\$2.5 million (CDN\$3.1 million equivalent) and incurred related party debt for a total of US\$1.8 million (CDN\$2.2 million equivalent) which is considered Permitted Debt.

From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At September 30, 2017, the Company had incurred \$8.1 million (USD \$6.5 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.2480 CAD.

## 11. Provisions

	September 30, 2017		December 31, 2016	
Decommissioning obligations (Note 11.1)	\$	48,108	\$	49,488
Contract provision (Note 11.2)		-		581
	\$	48,108	\$	50,069
Presented as:				
Provisions (current)	\$	-	\$	581
Provisions (non-current)	\$	48,108	\$	49,488

### 11.1 Decommissioning obligations

As at September 30, 2017, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$78.6 million (December 31, 2016 - \$80.1 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate of 0.73% to 2.42% per annum and inflated using an inflation rate of 2.0% per annum.

	September 30, 2017		December 31, 2016	
Balance, beginning of year	\$	49,488	\$	51,656
Effect of changes in discount rate		(2,185)		(3,128)
Unwinding of discount rate		805		960
	\$	48,108	\$	49,488
Current portion		-		-
Balance, end of year	\$	48,108	\$	49,488

### 11.2 Contract provision

As at September 30, 2017, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of Nil (December 31, 2016 - \$0.6 million). On April 5, 2017 the Company entered into debt settlement agreement with the Creditor, the Company agreed to allot and issue the Relevant Shares to the creditor as full and final settlement of the liability provision and Partial debt. On April 13, 2017, all the conditions of the placing were fulfilled and all the provision and partial debt with the creditor was settled.



## 12. Income taxes

### 12.1 Deferred tax balances

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

	September 30, 2017		December 31, 2016	
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	\$	(112,710)	\$	(119,980)
Decommissioning liabilities		12,989		13,362
Share issue costs		2,174		1,754
Non-capital losses		210,816		193,894
Deferred tax benefits not recognized		(113,269)		(89,030)
	\$	-	\$	-

### 12.2 Tax pools

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

	September 30, 2017		December 31, 2016	
Canadian development expense	\$	45,924	\$	36,163
Canadian exploration expense		230,947		230,926
Undepreciated capital cost		278,616		264,788
Non-capital losses		780,797		718,126
Share issue costs		8,052		6,497
	\$	1,344,336	\$	1,256,500

The Company's non-capital losses of \$780,797 (December 31, 2016 - \$718,126), expire between 2028 and 2035.

## 13. Share capital

The Company's authorized share capital is as follows:

- an unlimited number of Class "A" and Class "B" voting common shares without par value;
- an unlimited number of Class "C", Class "D", Class "E" and Class "F" non-voting common shares without par value; and,
- an unlimited number of Class "G" and Class "H" non-voting preferred shares.

### Issued capital

	September 30, 2017		December 31, 2016	
Common shares	\$	1,272,090	\$	1,247,302

### 13.1 Common shares

	September 30, 2017		December 31, 2016	
	Number of shares	\$	Number of shares	\$
Balance, beginning of year	5,002,601,358	1,247,302	4,230,264,104	1,174,987
Private placements – specific mandate	-	-	413,520,000	52,350
Private placements – general mandate	555,735,000	25,315	358,575,588	20,345
Issue of shares under share option plan	-	-	241,666	15
Share option reserve transferred on exercise of stock options	-	-	-	10
Share issue costs, net of deferred tax (\$Nil)	-	(527)	-	(405)
Balance, end of year	5,558,336,358	1,272,090	5,002,601,358	1,247,302

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



**13.1 Common shares (continued)**

**General mandate**

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

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

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited (“Zhengwei”) under which Zhengwei agreed to subscribe for a total of up to 150,000,000 Class “A” Common Voting Shares of the Company (“Common Shares”) at a price of HKD \$0.29 per Common Share or approximately CAD \$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD \$43.5 million (approximately CAD \$7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares HKD \$0.29 (approximately CAD \$0.050 per Common Share). The Company received total gross proceeds of HKD \$11.6 million (approximately CAD \$2.0 million). The subscription agreement expired on the date of this announcement and hence the time to close the remaining 110,000,000 Common Shares has lapsed.

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

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

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

**13.2 Share purchase warrants**

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Balance, beginning of period	-	-	132,910,941	0.34
Expired	-	-	(132,910,941)	0.34
Balance, end of period	-	-	-	-
Exercisable, end of period	-	-	-	-

During the year ended December 31, 2016, all outstanding share purchase warrants expired.



**14. Share-based compensation**

**14.1 Movements in stock options**

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

	Period ended September 30, 2017		Year ended December 31, 2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance, beginning of period	258,740,469	0.13	95,554,786	0.31
Granted	14,069,058	0.05	215,539,909	0.09
Exercised	-	-	(241,666)	0.06
Forfeited	(55,733,676)	0.10	(45,542,821)	0.29
Expired	(8,780,888)	0.34	(6,569,739)	0.44
Balance, end of period	208,294,963	0.11	258,740,469	0.13
Exercisable, end of period	141,790,304	0.12	122,243,920	0.17

As at September 30, 2017, stock options outstanding had a weighted average remaining contractual life of 3.7 years (December 31, 2016 – 4.4 years).

**14.2 Share-based compensation**

Share-based compensation has been recorded in the Condensed Consolidated Interim Financial Statements for the periods presented as follows:

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ 628	\$ -	\$ 628	\$ 2,949	\$ 344	\$ 3,293

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ 2,836	\$ 17	\$ 2,853	\$ 2,792	\$ 477	\$ 3,269

**15. Petroleum revenue, net of royalties**

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016		2017	2016	
Petroleum sales	\$ 8,781	\$ -	\$ -	\$ 20,693	\$ -	\$ -
Royalties	(36)	-	-	(142)	-	-
Balance, end of period	\$ 8,745	\$ -	\$ -	\$ 20,551	\$ -	\$ -

1. Petroleum revenue, net of royalties for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

The royalty rate at West Ells is based on price sensitive royalty rates set by the Government of Alberta. The applicable royalty rates change dependent upon whether a project is pre-payout or post-payout, with payout being defined as the point in time when a project has generated enough net revenues to recover its cumulative costs. The royalty rate applicable to pre-payout oil sands operations starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above \$55 per barrel, to a maximum of 9% when the WTI crude oil price is \$120 per barrel or higher. All of the Company's projects are currently pre-payout.

The average royalty rate for West Ells was 1% for three and nine month noted above.



**16. Other income**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest income	\$ -	\$ 12	\$ 10	\$ 35
Gain on sale of assets	-	-	-	2
Fair value adjustment on share purchase warrants	-	-	-	3
<b>Total</b>	<b>\$ -</b>	<b>\$ 12</b>	<b>\$ 10</b>	<b>\$ 40</b>

**17. Diluent costs**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Diluent	\$ 2,551	\$ -	\$ 6,364	\$ -
Blend Ratio	18.9%	-	19.1%	-

1. Diluent purchased for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

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

**18. Transportation**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Transportation	\$ 3,272	\$ -	\$ 7,689	\$ -

1. Transportation costs for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

The Company's transportation expense in the three and nine months ended September 30, 2017 was \$3.3 million and \$7.7 million respectively. Transportation cost includes trucking costs for dilbit and pipeline terminals fees.

**19. Operating costs**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Energy operating costs	\$ 1,011	\$ -	\$ 4,375	\$ -
Non-energy operating costs	4,536	-	9,748	-
<b>Total</b>	<b>\$ 5,547</b>	<b>\$ -</b>	<b>\$ 14,123</b>	<b>\$ -</b>

1. Operating costs for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

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

The Company incurred total operating costs of \$5.5 million and \$14.1 million for the three and nine months ended September 30, 2017 respectively.



**20. General and administrative costs**

	Three months ended September 30,					
	2017			2016		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 2,144	\$ -	\$ 2,144	\$ 2,017	\$ 516	\$ 1,501
Rent	547	-	547	479	164	315
Legal and audit	79	-	79	620	-	620
Other	773	-	773	542	19	523
<b>Total</b>	<b>\$ 3,543</b>	<b>\$ -</b>	<b>\$ 3,543</b>	<b>\$ 3,658</b>	<b>\$ 699</b>	<b>\$ 2,959</b>

  

	Nine months ended September 30,					
	2017			2016		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 6,572	\$ 232	\$ 6,340	\$ 7,306	\$ 1,918	\$ 5,388
Rent	1,733	151	1,582	1,550	542	1,008
Legal and audit	936	-	936	1,755	-	1,755
Other	2,858	17	2,841	2,164	59	2,105
<b>Total</b>	<b>\$ 12,099</b>	<b>\$ 400</b>	<b>\$ 11,699</b>	<b>\$ 12,775</b>	<b>\$ 2,519</b>	<b>\$ 10,256</b>

Effective March 1, 2017, the Company ceased the capitalization of portions of the general and administrative costs. For the nine months ended September 30, the Company capitalized a portion of the general and administrative cost for the first two months of the year.

**21. Finance costs**

	Three months ended				Nine months ended	
	September 30,		September 30,		September 30,	
	2017	2016	2017	2016	2017	2016
Interest expense on senior notes	\$ 8,899	\$ 7,788	\$ 26,493	\$ 20,402		
Interest expense on the loan	4	-	8	136		
Amortization of financing transaction costs and discount	-	2,962	-	10,046		
Redemption/yield maintenance premium	2,181	5,078	11,882	14,319		
Financing related costs	344	2,415	940	2,843		
Unwinding of discounts on provisions	259	363	805	873		
<b>Total</b>	<b>\$ 11,687</b>	<b>\$ 18,606</b>	<b>\$ 40,128</b>	<b>\$ 48,619</b>		

**22. Loss per share**

The weighted average number for basic Class "A" common shares for the periods presented is in the following table. Other than Class "A" common shares, all equity instruments have been excluded in calculating the diluted loss per share as they were anti-dilutive, considering the Company was in a loss position for the periods presented.

	Three months ended			
	September 30,		September 30,	
	2017	2016	2017	2016
Basic and Diluted – Class "A" common shares	5,558,336,358	4,684,808,125	5,372,890,168	4,383,034,931
Loss per share	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01



**23. Financial instruments**

**23.1 Capital risk management**

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

The Company's strategy is to access sufficient capital, through equity issuances, joint ventures and the utilization of debt, in order to maintain a capital base for the objectives of maintaining financial flexibility and to sustain the future development of the business. The Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital levels. The Company expects its current capital resources will not be sufficient to complete its development plans through the next twelve months and will be required to raise additional funds through future equity or debt financings, a joint venture or a sale of assets. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access additional financing.

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

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
Working capital deficiency	\$	343,136	\$	319,304
Shareholders' equity		581,687		607,455
	\$	924,823	\$	926,759

The Company's working capital deficiency of \$343.1 million at September 30, 2017, includes the \$247.9 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the three and nine months ended September 30, 2017.

**23.2 Categories of financial instruments**

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash, restricted cash and cash equivalents, prepaid expenses, deposits and trade and other receivables	\$ 8,016	\$ 8,016	\$ 21,343	\$ 21,343
<b>Financial liabilities</b>				
Trade and accrued liabilities	97,919	97,919	71,526	71,526
Debt	253,233	253,233	268,540	268,540

**23.3 Currency risk**

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long term debt which are denominated in US dollars and/or HK dollars. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the period ended September 30, 2017.

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 September 30, 2017 would have been impacted by Nil and the carrying value of the senior notes and loans at September 30, 2017 would have been impacted by \$2.5 million. At September 30, 2017 the Company held approximately USD \$0.01 million or \$0.02 million of cash, using the September 30, 2017 exchange rate of \$1USD = \$1.2480 CAD, as cash and cash equivalents in the Company's US bank accounts.



**23.3 Currency risk (continued)**

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 September 30, 2017 would have been impacted by approximately \$0.01 million and the carrying value of the loans at September 30, 2017 would have been impacted by \$0.04 million. At September 30, 2017, the Company held, after recent equity closings, approximately HKD \$8.3 million or \$1.3 million using the September 30, 2017 exchange rate of \$1CAD = \$6.2593 HKD, as cash in the Company's HKD bank accounts.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Unrealized foreign exchange loss/(gain) on translation of:				
U.S. denominated senior secured notes	\$ (9,874)	\$ 544	\$ (18,777)	\$ (14,025)
H.K. denominated loan	(57)	335	(127)	-
Foreign currency denominated cash balances	4,584	1,305	5,588	1,406
Foreign currency denominated accounts payable balances	(4,408)	16	(5,061)	212
	(9,755)	2,200	(18,377)	(12,407)
Realized foreign exchange loss	(7)	(267)	4	290
<b>Total foreign exchange loss/(gain)</b>	<b>\$ (9,762)</b>	<b>\$ 1,933</b>	<b>\$ (18,373)</b>	<b>\$ (12,117)</b>

**23.4 Liquidity risk management**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or debt proceeds. At September 30, 2017, the Company had negative working capital of \$343.1 million and an accumulated deficit of \$760.5 million. The Company's ability to continue as a going concern is dependent on completion of the West Ells development, achieving profitable operations and the ability to refinance current debt and access additional financing.

The timing of cash outflows relating to financial liabilities as at September 30, 2017, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	\$ 97,919	\$ 97,919	\$ -
Debt <sup>1</sup>	253,233	253,233	-
	<b>\$ 351,152</b>	<b>\$ 351,152</b>	<b>\$ -</b>

1. Principal amount of Notes based on the period end exchange rate of \$1USD = \$1.2480CAD and \$1HKD=\$0.1598CAD.

**24. Related party transactions**

**24.1 Trading transactions**

For the nine months ended September 30, 2017, a consulting company, to which a director of Sunshine is related, charged the Company \$0.4 million (the nine months ended September 30, 2016 – Nil) for management and advisory services.

During the nine months ended September 30, 2017 and year 2016, the Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company and he has also loaned the Company funds on an unsecured basis.

On August 24, 2017 the Company signed an unsecured loan agreement (the "Loan") with Prime Union Enterprises Limited ("Prime Union"). Prime Union is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan amount is HKD \$ 14,058,885 (approximately CAD \$2.27 million), and the loan had an interest rate of 6.0% per annum and required repayment in full within three months from the date of the receipt of the Loan.



**24.1 Trading transactions (Continued)**

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 was considered Permitted Debt under the Company’s Notes as long as it did not exceed USD \$5.0 million. The Loan had an interest rate of 6.0% per annum, could be drawn up to HKD \$38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement (“Second Loan”) was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the Loan, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements (Note 13).

**24.2 Compensation of key management personnel and directors**

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Directors’ fees <sup>1</sup>	\$ 150	\$ 172	\$ 540	\$ 513
Salaries and allowances	777	428	2,849	2,048
Share-based compensation	568	2,772	2,536	2,872
	\$ 1,495	\$ 3,372	\$ 5,925	\$ 5,433

1. For the period ended September 30, 2017, this number reflects accrued fees of \$0.2 million (2016 - \$0.2 million). Refer to the appendix A2 for additional director fees disclosure.

**25. Operating lease arrangements**

**Payments recognised as an expense**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Minimum lease payments	\$ 546	\$ 467	\$ 1,720	\$ 1,507

**26. Commitments and contingencies**

As at September 30, 2017, the Company’s commitments are as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Repayment of debt <sup>1</sup>	\$ 247,908	2,246	245,662	-	-	-	-
Interest payments on debt <sup>2</sup>	30,741	-	30,741	-	-	-	-
Redemption premium <sup>3</sup>	18,092	-	18,092	-	-	-	-
Loans <sup>4</sup>	5,325	2,246	3,079	-	-	-	-
Drilling, other equipment and contracts	2,346	2,264	82	-	-	-	-
Lease rentals	8,210	377	1,402	1,414	1,414	1,414	2,189
Office leases	5,145	781	3,007	1,072	285	-	-
	\$ 317,767	7,914	302,065	2,486	1,699	1,414	2,189

1. Principal amount of Notes based on the period end exchange rate of \$1US=\$1.2480 CAD and a maturity date of August 1, 2018.
2. Based on 10% on principal amount and 2.5% on the principal amount of the notes held by the Forbearing Holders per annum and a maturity date of August 1, 2018, at the period end exchange rate of \$1USD = \$1.2480 CAD.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2018. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2018. Using the period end exchange rate of \$1USD = \$1.2480 CAD this premium amounts to \$18,092. At September 30, 2017, the Company had the option to redeem the Notes at 0.583% of the aggregate principal amount of the Notes outstanding which amounts to \$15,963 using the period end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2018 maturity date, following the optional redemption schedule set out in the Notes indenture.



**26. Commitments and contingencies (Continued)**

4. Principal of loans and its interest (3% and 6% on principal amount of the debt) based on the period exchange rate of \$1 HKD = \$0.1598 CAD and \$1USD = \$1.2480 CAD.

The Company has been named as a Defendant in Court of Queen’s Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the “Claimant”) by Statement of Claim (the “Action”) filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company’s IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for \$40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company’s Statement of Defence was filed on April 2, 2014. The Claimant’s application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. No amounts have been accrued in the Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017 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.

**27. Supplemental cash flow disclosures**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Cash provided by (used in):</b>				
Trade and other receivables	\$ (10)	\$ (428)	\$ (1,983)	\$ 407
Prepaid expenses and deposits	880	(398)	3,378	1,369
Trade and other payables	16,580	3,847	31,454	10,332
	\$ 17,450	\$ 3,021	\$ 32,849	\$ 12,108
<b>Changes in non-cash working capital relating to:</b>				
<i>Operating activities</i>				
Trade and other receivables	\$ (13)	\$ (212)	\$ (2,089)	\$ (142)
Prepaid expenses and deposits	880	(398)	3,378	1,369
Trade and other payables	6,778	4,912	22,278	6,508
	\$ 7,645	\$ 4,302	\$ 23,567	\$ 7,735
<i>Investing activities</i>				
Exploration and evaluation	\$ -	\$ -	\$ -	\$ -
Property, plant and equipment	1,383	(2,153)	(12,880)	2,411
	\$ 1,383	\$ (2,153)	\$ (12,880)	\$ 2,411
<i>Financing activities</i>				
Share issue costs and finance costs	\$ 8,422	\$ 872	\$ 22,162	\$ 1,962
	\$ 17,450	\$ 3,021	\$ 32,849	\$ 12,108



## **28. Subsequent events**

On October 18, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD \$405,530 of which CAD \$369,032, being partial debt, would be settled by the issuance and the remaining balance would be settled by cash. On October 18, 2017 the Company completed the closing a total of 8,934,755 shares to the Creditor at the issue price of HKD \$0.255 per Common Shares (approximately CAD \$0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The Common Shares are subject to a four-month holding period.

On October 18, 2017, the Company gave the notice to Deloitte LLP to terminate their appointment as auditor of the Company for the purpose of maintaining good corporate governance. The Board of Directors (the "Board") was resolved, with the recommendation from audit committee of the Board, to appoint Pricewaterhouse Coopers LLP as the new auditor of the Company with effect from October 18, 2017 and to hold office until the conclusion of the next annual general meeting of the Company. On October 20, 2017, Deloitte LLP confirmed that there are no circumstances connected with its resignation that need to be brought to the attention of Shareholders and creditors of the Company. The board and audit committee of the Company have confirmed that there are no disagreement or unresolved matters between the Company and Deloitte LLP, and that they are not aware of any matter in connection with the resignation of Deloitte LLP that needs to be brought to the attention of the Shareholders or creditors of the Company.

## **29. Approval of interim consolidated financial statements**

The Condensed Interim Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on November 6, 2017.



**Appendix to the Condensed Consolidated Interim Financial Statements (Unaudited)**

**Additional Stock Exchange Information**

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

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

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

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<i>Non-current assets</i>		
Property, plant and equipment	\$ 679,762	\$ 684,410
Exploration and evaluation assets	292,700	291,716
Amounts due from subsidiary	6,638	4,657
	<u>979,100</u>	<u>980,783</u>
<i>Current assets</i>		
Trade and other receivables	4,637	2,654
Prepaid expenses and deposits	1,410	4,956
Cash	890	13,066
Restricted cash and cash equivalents	-	-
	<u>6,937</u>	<u>20,676</u>
<i>Current liabilities</i>		
Trade and other payables	97,919	71,509
Provisions	-	581
Share purchase warrants	-	-
Amount due to subsidiary	2,533	2,611
Loans	5,325	-
Senior Notes	247,908	268,540
	<u>353,685</u>	<u>343,241</u>
Net current assets (liabilities)	<u>(346,748)</u>	<u>(322,565)</u>
Total assets less current liabilities	<u>632,352</u>	<u>658,218</u>
<i>Non-current liabilities</i>		
Provisions	<u>48,108</u>	<u>49,488</u>
Net assets	<u>\$ 584,244</u>	<u>\$ 608,730</u>
<i>Capital and reserves</i>		
Share capital	\$ 1,272,090	\$ 1,247,302
Reserve for share-based compensation	70,115	67,262
Deficit	<u>(757,961)</u>	<u>(705,834)</u>
	<u>\$ 584,244</u>	<u>\$ 608,730</u>



**A2. Directors' emoluments and other staff costs**

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<i>Directors' emoluments</i>				
Directors' fees	\$ 150	\$ 172	\$ 540	\$ 513
Salaries and allowances	777	388	2,849	1,843
Share-based payments	568	2,787	2,536	2,872
	1,495	3,347	5,925	5,228
<i>Other staff costs</i>				
Salaries and other benefits	1,196	1,431	3,022	4,731
Contribution to retirement benefit scheme	21	26	161	219
Share-based payments	60	507	317	397
	1,277	1,964	3,500	5,347
Total staff costs, including directors' emoluments	2,772	5,311	9,425	10,575
Less: staff costs capitalized to qualifying assets	-	(861)	(249)	(2,395)
	\$ 2,772	\$ 4,450	\$ 9,176	\$ 8,180