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 FOURTH QUARTER AND THE YEAR ENDED DECEMBER 31, 2016 AND AN UPDATE ON WEST ELLS PROGRESS

Sunshine Oilsands Ltd. is pleased to announce its financial results for the fourth quarter and year ended December 31, 2016 and an update on West Ells progress. Please see the attached announcement for further information.

By Order of the Board of Sunshine Oilsands Ltd.

Sun Kwok Ping
Executive Chairman

Hong Kong, March 22, 2017
Calgary, March 21, 2017

As at the date of this announcement, the Board consists of Mr. Kwok Ping Sun, Mr. Hong Luo, Dr. Qi Jiang and Mr. Qiping Men as executive directors; Mr. Michael John Hibberd, Mr. Jianzhong Chen and Ms. Xijuan Jiang as non- executive directors; and Mr. Raymond Shengti Fong, Mr. Gerald Franklin Stevenson, Ms. Joanne Yan and Mr. Yi He as independent non-executive directors.

** For identification purposes only*

Sunshine Oilsands Ltd.
Announcement of Results for the Fourth Quarter and the Year Ended December 31, 2016 and an Update on West Ells Progress

CALGARY/HONG KONG Sunshine Oilsands Ltd. (the "**Corporation"** or **"Sunshine"**) (HKEX: 2012) today announced its financial results for the fourth quarter and the year ended December 31, 2016. The Corporation's consolidated financial statements, notes to the consolidated financial statements, Management's Discussion and Analysis and Annual Information Form have been filed on SEDAR (www.sedar.com) and with The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (www.hkexnews.hk) and are available on the Corporation's website (www.sunshineoilsands.com). The Annual Information Form includes the Corporation's reserves and resource data as at an effective date of December 31, 2016 as evaluated by GLJ Petroleum Consultants Ltd. and DeGolyer and MacNaughton Canada Limited and prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. All figures are in Canadian dollars unless otherwise stated.

MESSAGE TO SHAREHOLDERS

For the year ended December 31, 2016, the Corporation achieved progress in the following areas:

- Construction of Phase 1 is substantially completed;
- All 8 well pairs were on early SAGD production;
- All downhole pumps installation were completed and in operation mode;
- The Corporation has received its certificate from the Pressure Equipment Safety Authority in Alberta, for Sunshine's total asset integrity management.

On February 28, 2017, the Corporation ceased capitalization of its West Ells Phase I project. Hence, the Corporation will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project under IFRS effective March 1, 2017. These amounts will then be included in the Statement of Operations and Comprehensive Loss.

Sunshine's Capital Raising Activities

On September 12, 2016, the Corporation 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 include: (a) payment on October 17, 2016 of the yield maintenance premium payment due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of US$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 Corporation 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 Corporation; (i) budget approval rights; and (j) requirements that the Corporation raise additional capital and provide additional security for the Notes.

On October 31, 2016, the Corporation updated the status of the long term forbearance agreement with its note holders dated September 9, 2016 (the "Agreement"). In view of the importance of supporting active operations at West Ells while it examines the potential to progress the Memorandum of Understanding with Nobao Energy Holding (China) Corporation Limited to definitive terms and agreements, the Corporation initiated discussions with the forbearing holders about altering the timing and the form of payment of the yield maintenance premium.

As such, the Corporation has not paid the yield maintenance premium to the forbearing holders as required by the Agreement. While this constitutes a termination event under the Agreement and entitles the forbearing holders to exercise their rights and remedies under the Agreement, the forbearing holders have not taken steps to terminate the Agreement or exercise such rights and they have not, at this time, advised of any intention to do so.

On March 20, 2017, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement Agreement (the "FRA") and a Note Exchange Agreement (the "NEA"). The principal payment terms of the FRA include: (i) Payment of 20% of the Yield Maintenance Premium (the "YMP") originally due on August 1, 2016 by cash; (ii) 80% of the YMP will be repaid on August 1, 2017 as the bond matures; (iii) the Company agreed to repay bond principal of approximately USD11.2 million by issuance of shares (the “Share Issuance”), which therefore the NEA is to be executed; (iv) Payment of 20% accrued interest and forbearance fee fell due on February 1, 2017 by cash and the remaining amount to be repaid on August 1, 2017 as the bond matures; (v) Regarding the USD22.5 million of principal repayment which fell due on February 1, 2017, both parties agreed to defer the repayment as follows: USD5.0 million and USD10.0 million are to be repaid by the end of April 2017 and June 2017 respectively. The remaining amount shall be repaid on or before the maturity date of the bond, i.e. August 1, 2017.

The Board believes the entering into of the FRA and NEA is in the best interests of the Company and its shareholders as a whole as the FRA and NEA will provide the Company with additional time to repay or refinance the indebtedness owed by the Company to the Noteholders under the Notes. The Company is not aware that the Noteholders intend to enforce their rights in respect of the Notes.

General mandate

Reference is made to the announcements of the Corporation dated March 16, 2016, April 28, 2016, May 16, 2016, June 22, 2016, July 4, 2016, September 1, 2016, October 24, 2016 and October 31, 2016 (all Hong Kong time) (collectively, the “**Bright Hope Announcements**”) in relation to the proposed issue of a total of 558,823,500 new Class “A” Common Voting Shares of the Corporation (“**Common Shares**”) to Bright Hope Global Investments Limited ("**Bright Hope**") under the General Mandate.

On March 15, 2016, the Corporation entered into a subscription agreement with Bright Hope under which Bright Hope agreed to subscribe for a total of 558,823,500 Common Shares at a price of HK$0.34 per Common Share or approximately CDN$0.055 per Common Share, which in the aggregate amounts to gross proceeds of HK$190.0 million (approximately CDN$30.9 million) (the “**Bright Hope Placement**”).

During year ended December 31, 2016, the Corporation completed the closing of 308,575,588 Common Shares (the “**Bright Hope Closing**”) under the General Mandate at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Under the Bright Hope Closing, the Corporation received total gross proceeds of HK$104,915,700 (approximately CDN$17.6 million in total).

On October 31, 2016, the Corporation announced an extension of the subscription of the remaining 250,247,912 Common Shares (approximately HK$85,084,290 or CDN$14.69 million) subscribed for by Bright Hope (“Further **Extension**”) to no later than January 31, 2017.

On November 21, 2016, the Corporation announced that the Further Extension granted to Bright Hope has been mutually terminated as the Corporation was informed by Stock Exchange that the Further Extension did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the Corporation cannot issue those remaining Common Shares under the Private Placement under the General Mandate.

Reference is made to the announcements of the Corporation dated on December 7, 2016 and December 14, 2016 (Hong Kong time) in relation to the proposed issue of a total of 50,000,000 new Class “A” Common Voting Shares of the Corporation to a Third Party ("**Third Party**") under the General Mandate.

On December 7, 2016, the Corporation entered into a subscription agreement with a third party for a total of 50,000,000 class “A” common shares at a price of HK$0.321 per share (approximately CDN$0.054 per common share), for gross proceeds of HK$16.05 million (approximately CDN$2.7 million). On December 14, 2016 the Corporation completed the closing of this subscription agreement. In addition, a placing commission of HK$120,375 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

Reference is made to the announcements of the Corporation dated on December 28, 2016 and December 29, 2016 (all Hong Kong time) in relation to the proposed issue of a total of 150,000,000 new Class “A” Common Voting Shares of the Corporation to Zhengwei International Investment and Management Co. Ltd. ("**Zhengwei**") under the General Mandate.

On December 28, 2016, the Corporation entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited under which Zhengwei agreed to subscribe for a total of 150,000,000 Class “A” Common Voting Shares of the Corporation at a price of HK$0.29 per Common Share or approximately CDN$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HK$43.5 million (approximately CDN$7.6 million).

Subsequent to December 31, 2016, on January 17, 2017, the Corporation entered into a subscription agreement for a total of 60,000,000 class “A” common shares at a price of HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Corporation completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been 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 HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

Specific mandate

Reference is made to the announcements of the Corporation dated June 1, 2015, July 28, 2015 , August 21, 2015, October 1, 2015, November 2, 2015, December 6, 2015, March 2, 2016, May 3, 2016, June 3, 2016, June 23, 2016, July 21, 2016, August 1, 2016, August 4, 2016 and October 24 (all Hong Kong time) (collectively, the “**Prime Union Announcement**”) and the circular of the Corporation dated June 22, 2015 (the “**Circular**”) in relation to, among other matters, the proposed issue of new Common Shares under the Specific Mandate (as defined in the Prime Union Announcement) and the connected transactions involving subscriptions for new Common Shares by connected persons. Unless the context requires otherwise, terms use herein shall have the same meanings as those defined in the Prime Union Announcement and the Circular.

During year ended December 31, 2016, the Corporation completed the closing the remaining of 413,520,000 Common Shares (the “**Prime Union Partial Closing**”) under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under the Prime Union Partial Closing, the Corporation received total gross proceeds of HK$310,140,000 (approximately CDN$52.3 million)

The Corporation intends to apply the net proceeds from the Issued Shares (i) for general working capital of the Corporation and (ii) as funds for future development of the existing business of the Corporation, including funding the operation costs of the West Ells project.

Summary of Financial Figures

As at December 31, 2016 and December 31, 2015, the Corporation notes the following selected balance sheet figures.

(Canadian $000s)	December 31, 2016	December 31, 2015
Cash	$ 13,635	$ 6,545
Current restricted cash and cash equivalents	-	14,389
Prepaid expense and deposits	5,054	8,119
Exploration and evaluation assets	291,716	290,945
Property, plant and equipment	684,531	650,930
Total liabilities	390,135	369,083
Shareholders' equity	607,455	604,098

For the fourth quarter of 2016, the Corporation had a net loss of $23.2 million, compared to $325.8 million for the same period in 2015, representing a net loss per share for each respective year of $0.00 and $0.08. For the year ended December 31, 2016, the Corporation had a net loss of $73.3 million compared to $406.1 million for the year ended December 31, 2015, representing a net loss per share for each respective year of $0.02 and $0.10.

Reserves and Resources

On March 21, 2017, the Corporation announced the results of its reserves and resources evaluations, effective as at December 31, 2016. For a full discussion of the Corporation's reserves and resources data and other oil and gas information, see the "Statement of Reserves Data and Other Oil and Gas information" in the Corporation's Annual Information Form for the year ended December 31, 2016, a copy of which is available on the Hong Kong Stock Exchange's website at www.hkexnews.hk, on the SEDAR website at www.sedar.com and on the Corporation's website at www.sunshineoilsands.com.

2017 Outlook

As at the date of this release, all eight West Ells Phase I well pairs are on early SAGD production. The Corporation is fully committed to advancing its corporate initiatives and expects to operate the plant to prove the reservoir performance.

Hong Luo
Chief Executive Officer

Qiping Men
President & Chief Operating 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 rate of 5,000 barrels per day.

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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 closing of under General Mandate and Specific Mandate and the timing thereof; and (c) the plans and expectations of the Corporation. 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, on the SEDAR website at www.sedar.com or the Corporation's website at www.sunshineoilsands.com.

阳光油砂
SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("*Sunshine*" or the "Company") for the three months and year ended December 31, 2016 is dated March 21, 2017. This MD&A should be read in conjunction with the Company's 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.*

Forward-Looking Information

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

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

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

Overview

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.35 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 P&NG leases, the Company has significant commercial development potential. Phase 1 (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is on production and is ramping up to meet the designed plant capacity. The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the western hemisphere and the third largest oil resource in the world, with an estimated 166 billion barrels of recoverable resource. Canadian oil sands represent the largest single source of supply of oil imported into the United States.

The Company's focus is on evaluating and developing its oil sands assets with the completion and operation of the 5,000 bbls/day Phase 1 commercial West Ells (the "Project"). Once the productivity of the reservoir has been proved, when finance is available, the Company is planning to add an additional 5,000 barrels per day of Phase 2 to the Project.

As at December 31, 2016, the Company had invested approximately $1.25 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at December 31, 2016, the Company had $13.6 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 operation and developing in West Ells, marketing bitumen blends at favorable price, achieving profitable operations and the ability to refinance current debt and access immediate additional

Overview (continued)

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

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

Operational Update

West Ells

For the year ended December 31, 2016, the Company achieved progress in the following areas:

- Construction of Phase 1 is substantially completed;
- All 8 well pairs were on early SAGD production;
- All downhole pumps installation were completed and in operation mode;
- The Company has received its certificate from the Pressure Equipment Safety Authority in Alberta, for Sunshine's total asset integrity management.

On February 28, 2017, the Company ceased capitalization of its West Ells Phase I project. Hence, the Company will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project under IFRS effective March 1, 2017. These amounts will then be included in the Statement of Operations and Comprehensive Loss.

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 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.

Non-IFRS Financial Measures

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

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

Operational and Financial Highlights

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

	For the three months ended December 31,		For the year ended December 31,	
Financial Highlights	**2016**	**2015**	**2016**	**2015**
Other income	$ 8	$ 155	$ 48	$ 1,024
Finance costs	13,901	17,857	62,520	47,543
Net loss	23,237	325,761	73,310	406,135
Basic and diluted loss per share	0.00	0.08	0.02	0.10
Payments for exploration and evaluation assets	187	144	1,344	1,375
Payments for property, plant and equipment	8,503	28,679	36,145	153,367

For the three months and year ended December 31, 2016, the Company had a net loss of $23.2 million and $73.3 million compared to $325.8 million and $406.1 million in 2015, respectively. The net loss for the three months and year ended December 31, 2016 respectively, was attributed to a foreign exchange loss of $5.3 million and a gain of $6.8 million, finance costs of $13.9 million and $62.5 million, general administration costs of $2.9 million and $13.2 million, share-based compensation of $1.0 million and $3.8 million, contract provision expense of $Nil and $0.1 million and depreciation and impairment expense of $0.1 million and $0.5 million, offset by interest income of $Nil and $0.1 million.

The net loss for the three months and year ended December 31, 2015 , respectively, was attributed to a foreign exchange loss of $8.0 million and $36.3 million, finance costs of $17.9 million and $47.5 million, general administration costs of $4.6 million and $19.5 million, share-based compensation of $0.3 million and $1.6 million, contract provision expense of $Nil and $6.6 million and depreciation and impairment expense of $295.2 million and $295.6 million, offset by a gain of $0.1 million and $0.4 million on the fair value adjustment on share purchase warrants and interest income of $Nil and $0.5 million.

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 13,635	$ 6,545
Current restricted cash and cash equivalents	-	14,389
Working capital deficiency	319,304	286,121
Total assets	997,590	973,181
Total liabilities	390,135	369,083

At December 31, 2016, the Company had a cash balance of $13.6 million, excluding restricted cash, compared to $6.5 million at December 31, 2015. The increase of $7.1 million in the cash balance resulted from $24.6 million used for property, plant and equipment, $1.3 million used for exploration and evaluation assets, $3.7 million used in corporate operating activities, $ 49.5 million for finance costs and a loss of $0.5 million on unrealized foreign exchange on cash held in foreign currencies, which amount were offset by the release of $14.4 million in restricted cash to fund long-term debt interest payments and $72.3 million in net proceeds from the issuance of common shares.

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. Interest payments are payable semi-annually on February 1 and August 1 of each year.

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.

Operational and Financial Highlights (continued)

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 US $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 continues to be in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine has 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, as;
- 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 20, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") 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 make 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 20, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 20, 2017, which has been paid as of March 20, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will 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 March 20, 2017 Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $11,209,728 of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 20, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

The Company has presented the Notes as a current liability on Consolidated Statements of Financial Position as at December 31, 2016.

Operational and Financial Highlights (continued)

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

	For the three months ended December 31, 2016	For the three months ended December 31, 2015	For the year ended December 31, 2016	For the year ended December 31, 2015
Net loss	$ (23,237)	$ (325,761)	$ (73,310)	$ (406,135)
Finance costs	13,901	17,857	62,520	47,543
Unrealized foreign exchange (gains)/losses	5,248	7,933	(7,159)	34,474
Contract provision expense	-	36	75	6,636
Interest income	(8)	(25)	(43)	(471)
Gain on sale of assets	-	-	(2)	(174)
Fair value adjustment on share purchase warrants	-	(130)	(3)	(379)
Depreciation and impairment	126	295,159	547	295,593
Share-based compensation	1,011	287	3,803	1,563
Employee share savings plan	-	-	-	356
Cash flow used in operations	$ (2,959)	$ (4,644)	$ (13,572)	$ (20,994)

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

Cash flow used in operations in the three months and year ended December 31, 2016 respectively totalled $3.0 million and $13.6 million compared to $4.6 million and $21.0 million for the same period in 2015. For the three month period ended December 31, 2016, the decrease in cash flow used in operations of $1.7 million compared to the same period in 2015 is primarily due to a decrease of $0.4 million in salaries, consulting and benefits, a $1.3 million decrease in other general and administrative costs. For the year ended December 31, 2016, the decrease in cash flow used in operations of $7.4 million is primarily due to a decrease in salaries, consulting and benefits of $3.7 million, $1.5 million in realized foreign exchange losses, and $2.5 million in other general and administrative costs, offset by a $0.2 million decrease of gain on sale of assets.

Summary of Quarterly Results

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

('000s except for per share amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Other income	8	12	10	18	155	1,023	(840)	686
Finance costs	13,901	18,606	15,415	14,598	17,857	10,641	9,891	9,154
Net loss for the period	23,237	26,564	20,736	2,773	325,761	30,413	19,122	30,839
Loss per share	0.00	0.01	0.00	0.00	0.08	0.01	0.00	0.01
Capital investments (1)	615	14,191	11,028	1,169	19,051	31,100	51,422	44,018

1. Included payments for exploration and evaluation, property, plant and equipment, and movement in non-cash working capital.

Results of Operations

Finance Costs

	For the three months ended December 31, 2016	2015	For the year ended December 31, 2016	2015
Interest expense on senior secured notes	$ 8,453	$ 7,131	$ 28,855	$ 26,030
Interest expense on shareholder's loan	-		136	
Amortization of financing transaction costs and discount	-	4,261	10,046	14,267
Redemption/ yield maintenance premium	4,736	6,245	19,055	6,245
Financing related costs	338	243	3,170	232
Other interest expense	287	(287)	298	(286)
Unwinding of discounts on provisions	87	264	960	1,055
	$ 13,901	$ 17,857	$ 62,520	$ 47,543

For the three month period ended December 31, 2016, finance costs decreased by $4.0 million primarily as a result of an decrease of $4.3 million attributed to the amortization of financing transaction costs on the Notes, $1.5 million decrease in premium due to the Notes requiring a premium payment upon redemption after August 31, 2015, offset by an increase of $1.3 million in interest expense on notes and $0.5 million other interest expense compared to the same period in 2015. Finance costs for the year ended December 31, 2016 increased by $15.0 million primarily as a result of an increase of $12.8 million in redemption premium due to the Notes requiring a premium payment upon redemption after August 31, 2015, an increase of $2.8 million of interest expense on senior secured notes, an increase of $2.9 million financing related costs, and $0.7 million all other interest expense offset by a decrease of $4.2 million attributed to the amortization of financing transaction costs on the Notes, compared to the same period in 2015.

General and Administrative Costs

	For the three months ended December 31, 2016			2015		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	$ 2,866	570	2,296	$ 3,570	889	2,681
Rent	512	165	347	531	194	337
Legal and audit	118	-	118	139	-	139
Other	202	31	171	1,459	38	1,421
	$ 3,698	766	2,932	$ 5,699	1,121	4,578

	For the year ended December 31, 2016			2015		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	$ 9,486	2,488	6,998	$ 15,751	5,005	10,746
Rent	2,062	707	1,355	2,300	891	1,409
Legal and audit	1,873	-	1,873	1,891	-	1,891
Other	3,052	90	2,962	5,615	143	5,472
	$ 16,473	3,285	13,188	$ 25,557	6,039	19,518

General and administrative expenses, which include salaries, consulting and benefits, rent, and other general and administrative costs, for the three month period ended December 31, 2016 decreased by $1.6 million to $2.9 million compared to $4.6 million for the same period in 2015. The decrease is primarily the result of a decrease in salaries, which includes severance, consulting and benefits of $0.4 million; a decrease in other costs $1.3 million. For the year ended December 31, 2016, general and administrative expenses decreased by $6.3 million to $13.2 million compared to $19.5 million for the same period in 2015. The decrease is primarily a result of a decrease in salaries, consulting and benefits of $3.7 million, a decrease in other costs of $2.5 million,

During the three months and year ended December 31, 2016, the Company capitalized salaries, consulting and benefits, rent and other general and administrative costs related to capital investment of $0.8 million and $3.3 million compared to $1.1 million and $6.0 million for the same period in 2015, respectively.

Contract Provision

As at December 31, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $0.6 million (December 31, 2015 - $6.6 million). The $0.6 million represents the maximum obligation required if the drilling rig was not utilized over the remaining term of the contract, which ended in the fourth quarter of 2016. At December 31, 2016, this obligation is broken into a $5.6 million payable and a $0.6 million provision (December 31, 2015 - $3.1 million payable and $3.5 million provision). For the year ended December 31, 2016, the Company paid $0.6 million against the obligation.

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Share-based Compensation

	For the three months ended December 31,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	1,093	82	1,011	370	83	287

	For the year ended December 31,					
	2016			2015		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based compensation	4,362	559	3,803	2,307	744	1,563

Share-based compensation expense for the three months and year ended December 31, 2016 was $1.0 million and $3.8 million compared to $0.3 million and $1.6 million for the same period in 2015, respectively. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model.

The Company capitalizes a portion of the share-based compensation using the same methodology associated with capitalized salaries and benefits. For the three months and year ended December 31, 2016, the Company capitalized $0.1 million and $0.6 million, compared to $0.1 million and $0.7 million of share-based compensation for the same period in 2015.

Other Income

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Interest income	$ 8	$ 25	$ 43	$ 471
Gain on sale of assets	-	-	2	174
Fair value adjustment on share purchase warrants	-	130	3	379
	$ 8	$ 155	$ 48	$ 1,024

Other income for the three months ended December 31, 2016 compared to 2015 decreased by $0.1 million and $1.0 million respectively. The change was primarily due to the absence of any gains on sale of assets, lower of interest income and the decrease of the fair value adjustment on share purchase warrants for the same periods in 2015.

Depreciation and Impairment

Depreciation and impairment expense was $0.1 million and $ 295.2 million for each of the three month periods ended December 31, 2016 and 2015. For year ended December 31, 2016 depreciation and impairment expense was $0.5 million compared to $295.6 million for the same period in 2015. Since the Company is currently a development stage company, its oil assets are not yet ready for use and therefore, not subject to depletion and depreciation.

Exploration & Evaluation ("E&E") Asset Impairment

.As at December 31, 2016, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. For the purpose of impairment testing, the recoverable amount of

Depreciation and Impairment (continued)

E&E Assets was determined using judgement and internal estimates as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues based on forecasted oil and gas prices; (iii) future development costs and production expenses; and (iv) the discount rate and risk factors to be applied to such revenues and costs for the purposes of deriving a recoverable value.

Reserve and resource values were based on the Company's December 31, 2016 reserve report as prepared by its independent reserve engineers. The recoverable amount of the E&E Assets was estimated based on proved plus probable reserves plus risked best estimate contingent resources using a pre-tax discount rate of 12 percent with a further discount factor of 62.5 percent applied to best estimate contingent resources.

For the year ended December 31, 2016, the Company recognized an impairment of Nil (December 31, 2015 - $90 million) on its E&E Assets as the net present value of future cash flows exceeded the carrying value of the respective CGU's.

Property, Plant & Equipment ("PP&E") Asset Impairment

As at December 31, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the property, plant and equipment. For the year ended December 31, 2016, no impairment has been recognized on property, plant and equipment (December 31, 2015 - $205 million).

The following table was used in the December 31, 2016 impairment assessment and summarizes the price forecast used in the Company's discounted cash flow estimates. The table is the GLJ Petroleum Consultants' pricing forecast effective January 1, 2017.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @Cushing $US/bbl	WCS @ Hardisty $/bbl	Heavy Oil 12 API @Hardisty $/bbl	AECO Spot ($/MMbtu)
2017	2	0.750	55.00	53.32	46.69	3.46
2018	2	0.775	59.00	56.79	50.40	3.10
2019	2	0.800	64.00	61.27	55.03	3.27
2020	2	0.825	67.00	63.00	56.96	3.49
2021	2	0.850	71.00	65.90	59.95	3.67
2022	2	0.850	74.00	69.42	63.43	3.86
2023	2	0.850	77.00	72.91	66.99	4.05
2024	2	0.850	80.00	76.45	70.48	4.16
2025	2	0.850	83.00	79.93	73.63	4.24
2026	2	0.850	86.05	83.47	77.54	4.32
2027+	escalate oil, gas and product prices at 2% per year thereafter					

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three months and year ended December 31, 2016 and 2015. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At December 31, 2016, the Company had total available tax deductions of approximately $1.3 billion, with unrecognized tax losses that expire between 2028 and 2035.

Liquidity and Capital Resources

		2016		2015
Working capital deficit (surplus) [1, 2]	$	319,304	$	286,121
Shareholders' equity		607,455		604,098
	$	926,759	$	890,219

1. Included in working capital deficit/ (surplus) at December 31, 2016, is restricted cash of Nil (December 31, 2015, $14.4 million). Refer to Note 4 "cash and cash equivalents" in the consolidated financial statements for additional disclosure on restricted cash.
2. Senior secured notes are considered current as at December 31, 2016 and have been included in the working capital deficit as the conditions to extend the maturity date to August 1, 2017 on September 12, 2016.

Liquidity and Capital Resources (continued)

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. Interest payments are payable semi-annually on February 1 and August 1 of each year.

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 with the noteholders.

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 US $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 continued to be in violation of the Forbearance Agreement including the following financial related termination events that have not been rectified or cured by the Company:

- Sunshine has 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, as;
- 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 20, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") with the Bondholders. The Bondholders agree to waive the termination events listed above and fully reinstate the Forbearance Agreement, provided that Sunshine make the following payments on or before March 27, 2017:

- Payment of $2.8 million representing 20% of the YMP originally due on August 1, 2016; and
- Payment of $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017;
- As of March 20, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 20, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal on August 1, 2017 of an amount equal to 80% of the YMP;
- 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 March 20, 2017, Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $11,209,728 of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 20, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

Liquidity and Capital Resources (continued)

The Company has presented the Notes as a current liability on Consolidated Statements of Financial Position as at December 31, 2016.

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 December 31, 2016, the Company had incurred $8.0 million (USD $6.0 million equivalent using the year 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 $1US = 1.3427CDN.

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.

For the three months and year ended December 31, 2016, the Company reported a net loss of $23.2 million and $73.3 million, respectively. At December 31, 2016, the Company had a working capital deficiency of $319.3 million including senior notes of $268.5 million and an accumulated deficit of $707.1 million.

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

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

For the three months and year ended December 31, 2016, the Company had a foreign exchange loss of $5.3 million and a foreign exchange gain of $6.8 million compared to an $8.0 million and $36.3 million loss in the same period in 2015. The change in foreign exchange for the three month period ended December 31, 2016, was primarily due to a $2.2 million unrealized loss on translation of the US denominated Notes, and a loss of $0.6 million unrealized loss on US and HKD denominated cash balances. The $43.2 million increase in foreign exchange gain for the year ended December 31, 2016, was primarily due to a $49.8 million unrealized gain on translation of the US denominated Notes, and a $1.5 million decrease in realized foreign loss, offset by an unrealized loss of $8.0 million on US and HKD denominated cash balances.

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the three months and year ended December 31, 2016. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at December 31, 2016 would have been impacted by Nil and the carrying value of the senior notes at December 31, 2016 would have been impacted by $2.6 million. At December 31, 2016, the Company held approximately USD $0.2 million or $0.3 million of cash, using the December 31, 2016 exchange rate of $1US= $1.3427CDN, as cash, restricted 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 and restricted cash held at December 31, 2016 would have been impacted by approximately $0.1 million. At December 31, 2016, the Company held, after recent equity closings, approximately HKD$70.5 million or $12.1 million using the December 31, 2016 exchange rate of $1CDN=$5.7748HKD, as cash in the Company's HKD bank account.

At December 31, 2016, The Company also had $3.2 million classified as a deposit, with the Alberta Energy Regulator for the Licensee Liability Rating Program (by February 22, 2017, $3.2 million had been refunded in total).

Cash Flows Summary

	For the three months ended December 31, 2016	For the three months ended December 31, 2015	For the year ended December 31, 2016	For the year ended December 31, 2015
Cash used in operating activities	$ (540)	$ (1,928)	$ (3,418)	$ (18,280)
Cash used in investing activities	(607)	(19,490)	(12,569)	(123,994)
Cash provided by financing activities	13,245	5,723	23,561	5,216
Effect of exchange rate changes on cash held in foreign currency	922	370	(484)	7,506
Net (decrease) / increase in cash	13,020	(15,325)	7,090	(129,552)
Cash, beginning of period	615	21,870	6,545	136,097
Cash, end of period	$ 13,635	$ 6,545	$ 13,635	$ 6,545

Operating Activities

Net cash used for operating activities for the three months and year ended December 31, 2016 was $0.5 million and $3.4 million compared to cash used of $1.9 million and $18.3 million in 2015, a decrease of $1.4 million and a decrease of $14.9 million, respectively. Net cash used for operating activities includes movement in working capital of $2.4 million and $10.2 million for the three months and year ended December 31, 2016 compared to movement of $2.7million for the same periods in 2015.

Investing Activities

Net cash used from investing activities for the three months ended December 31, 2016 decreased by $18.9 million to $0.6 million compared to cash used $19.5 million for the three month period ended December 31, 2015. The decrease was primarily due to a reduction in payments for property, plant and equipment of $20.2 million and $0.5 million reduction of the release of restricted cash, offset by a decrease in non-cash movement in working capital of $1.7 million. For the year ended December 31, 2016 net cash used for investing activities decreased by $111.4 million to $12.6 million compared to $124.0 million for the year ended December 31, 2015. The decrease was primarily a reduction in payments for property, plant and equipment of $11.72 million and $1.3 million non cash movement in working capital related to the West Ells project, offset by the release of restricted cash of $6.3 million to fund long-term debt interest payments, a reduction in interest received of $0.4 million and proceeds from sale of assets of $0.4 million.

Financing Activities

Net cash generated from financing activities for the three month period ended December 31, 2016 totalled $13.2 million, which consisted of proceeds from the issue of common shares of $26.6 million less payment of $0.3 million share issue cost, offset by finance costs of $13.0 million. Financing activities for the year ended December 31, 2016 generated $23.6 million, which consisted of proceeds from the issue of common shares of $72.7 million less payment for share issue costs of $0.4 million, offset by payment for finance costs, largely related to the Notes interest, amortization and redemption premium costs of $48.7 million. Financing activities for the three month period ended December 31, 2015 totalled $5.7 million, which consisted of proceeds from the issue of common shares of $12.6 million less share issue and finance costs of $6.6 million. Financing activities for the year ended December 31, 2015 generated $5.2 million, which consisted of proceeds from the issue of common shares of $35.7 million less payment for share issue costs of $0.2 million, offset by payment for finance costs, largely related to the Notes interest, amortization and redemption premium costs of $30.3 million.

Commitments and Contingencies

Information presented in the table below reflects management's estimate of the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. As at December 31, 2016, the Company's estimated commitments are as follows:

		Total	2017	2018	2019	2020	2021	Thereafter
Repayment of long-term debt[1]	$	268,540	268,540	-	-	-	-	-
Interest payments on long-term debt[2]		33,299	33,299	-	-	-	-	-
Redemption premium[3]		19,598	19,598	-	-	-	-	-
Drilling, other equipment and contracts		3,550	3,456	94	-	-	-	-
Lease rentals[4]		9,254	1,421	1,402	1,414	1,414	1,414	2,189
Office leases		6,118	2,893	2,580	645	-	-	-
	$	340,359	329,207	4,076	2,059	1,414	1,414	2,189

1. Principal amount of Notes based on the year exchange rate of $1US=1.3427 CDN and a maturity date of August 1, 2017.
2. Based on 10% per annum and a maturity date of August 1, 2017, at the year exchange rate of $1US=1.3427 CDN.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2017. Using the year exchange rate of $1US=1.3427 CDN this premium amounts to $19,568. At December 31, 2016, the Company had the option to redeem the Notes at 2.333% of the aggregate principal amount of the Notes outstanding which amounts to $6,265 using the year end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2017 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require 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 consolidated financial statements for the year ended December 31, 2016 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

Transactions with Related Parties

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13), and he has also loaned the Company funds on an unsecured basis.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan 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, can be drawn up to HK$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). As at December 31, 2016, both the Loan and Second loan balances were Nil.

Off-balance Sheet Arrangements

The Company has certain lease agreements which are reflected in the table above under the heading "Commitments and contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at December 31, 2016, the Company did not have any other off-balance sheet arrangements.

Subsequent Events

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 HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On February 28, 2017 the Company ceased capitalization of its West Ells Phase I project (“the Project”). As of this date the Project has met the following criteria:

- The formation has been steaming for more than one year.
- All of the 8 well pairs have been in SAGD production for a certain period of time.
- The plant has been operating in the manner intended by management.
- The project is now running at approximately 60% of its nameplate capacity.

Hence, the Company will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project effective March 1, 2017. These amounts will be included in the Statement of Operations and Comprehensive Loss.

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 HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

On January 31, 2017, the Company updated the status of the Agreement, and on March 20, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement ("NEA") with the bondholders

New Accounting Pronouncements and Changes in Accounting Policies

On January 19, 2016, the IASB issued amendments to IAS12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Amendments to IAS 12 will be applied on a retrospective basis by the Corporation on January 1, 2017. The adoption of this amended standard is not expected to have a material impact on the Company’s consolidated financial statements.

On January 29, 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows, as part of its disclosure initiative. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of this amended standard will have required disclosure impacts that enable users of financial statements to evaluate changes in liabilities arising from financing activities on the Company’s’ consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of these amendments on the Company’s consolidated financial statements.

In May 2014, the IASB published IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively in full or by applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

New Accounting Pronouncements and Changes in Accounting Policies (continued)

In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments" which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company is currently assessing and quantifying the potential effect on its financial statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company's financial statements.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

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

Going Concern

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

Joint Control

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

Oil and Gas Reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Reserve estimates are based on, among other things, forecasts of production, prices, cost estimates and economic conditions.

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found proved and probable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production forecasts, prices and other economic conditions;
- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Company's development and production assets are determined using proved plus probable reserves.

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

Impairment of Non-financial Assets

The recoverable amounts of cash generating units ("CGU") and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Recoverability of Exploration and Evaluation costs

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

Decommissioning Costs

A provision is required to be recognised for the future retirement obligations associated with the Company's assets. The decommissioning provision is based on estimated costs, taking into account the anticipated method and extent of restoration consistent with legal, regulatory and construction requirements, technological advances and the possible use of the site. Since these estimates are specific to the sites involved, there are many individual assumptions underlying the amount provided. As a result of anticipated long project lives, usually of 20 to 50 years, these estimates may change substantially due to, among other things: (i) changes in regulations; (ii) changes and advancement in technology; (iii) changes in costs and cost structure; and (iv) adjustments to the termination time of a project.

Share Purchase Warrants

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

Share-based Compensation

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

Fair Value Measurement

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Deferred Income Taxes

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

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2015, which is available at www.sedar.com. The 2015 annual report of the Company is available at the Company's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Company's 2016 Annual Information Form is available at www.sedar.com.

Disclosure Controls and Procedures

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, 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. As at December 31, 2016, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer evaluated the design and operation of the Company's DC&P. Based on that evaluation, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer concluded that the Company's DC&P were effective as at December 31, 2016.

Internal Controls over Financial Reporting

Hong Luo, Executive Director of the Board and Chief Executive Officer, and Gloria Ho, 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); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR at December 31, 2016, and concluded that the Company's ICFR are effective at December 31, 2016 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the three months and year ended December 31, 2016 that have materially affected, or is reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

Additional Stock Exchange Information

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

Code of Corporate Governance Practice (the "Code")

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

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "Hong Kong Listing Rules"), has been complied with following its public listing, save that the Company has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4

Code of Corporate Governance Practice (the "Code") (continued)

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 compiled with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

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

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

Completion of the Placement was to occur on or before May 14, 2016 (or such other date as the Company may choose) (the "Closing Date"). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Company takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Company and the Subscriber under the Subscription Agreement would immediately and unconditionally cease and be null and void.

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

On May 16, 2016, the Company announced, effective May 14, 2016, an extension of the remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares, subscribed for by Bright Hope at a price of HK$0.34 per Common Share (approximately CDN$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$20,016,140 (approximately CDN$3.3 million). In addition, an introduction fee of HK$400,323 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing.

On July 4, 2016, the Company announced, effective June 30, 2016, an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

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

Purchase, Sale or Redemption of Sunshine's Listed Securities (continued)

On October 24, 2016, the Company completed the closing of 137,941,176 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$46,900,000 (approximately CDN$8.05 million). In addition, an introduction fee of HK$937,995.40 (approximately CDN$160,927.03) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company completed the closing of 23,529,412 Common Shares subscribed for by Bright Hope (at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon Partial Closing, the Company received total gross proceeds of HK$8,000,000 (approximately CDN$1.38 million). In addition, an introduction fee of HK$160,000 (approximately CDN$27,619) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company announced an extension of the remaining 250,247,912 Common Shares (approximately HK$85,084,290 or CDN$14.69 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than January 31, 2017.

Subsequent to the announcement dated October 31, 2016 of the further extension to the closing date of the Bright Hope subscription agreement regarding to the remaining 250,247,912 Common Shares, the Company had been informed by the Stock Exchange that the Company's agreement on October 30, 2016 to issue shares to Bright Hope on or before the extended closing date of January 31, 2017 did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the Company cannot issue those remaining Common Shares under the Private Placement under the General Mandate. As a result, the Company and Bright Hope determined to mutually terminate the subscription agreement effective November 21, 2016 (Hong Kong time).

On December 7, 2016, the Company entered into a subscription agreement with a third party for a total of 50,000,000 class "A" common shares at a price of HK$0.321 per share (approximately CDN$0.054 per common share), for gross proceeds of HK$16.05 million (approximately CDN$2.7million). On December 14, 2016 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$120,375 (approximately CDN$0.02 million), had been 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 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HK$0.29 per Common Share or approximately CDN$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HK$43.5 million (approximately CDN$7.6 million).

On January 17,2017 the Company entered into a subscription agreement with a third party for a total of 60,000,000 class "A" common shares at a price of HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been 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 HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

Specific mandate

On May 2, 2016, the Board of Directors, having taken into account the existing market conditions, consented to a further extension of the closing date for the remaining 413,520,000 Common Shares (HK$310,140,000 or approximately

CDN$53.5 million) subscribed by Prime Union Enterprises Limited ("Prime Union") (original subscription agreement was May 31, 2015) to August 2, 2016 from May 2, 2016. The remaining subscribed Common Shares was to be closed in one or more tranches with the last tranche closing no later than August 2, 2016. Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company.

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares subscribed for by Prime Union at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.68 million).

Purchase, Sale or Redemption of Sunshine's Listed Securities (continued)

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.124 per Common Share). Under which, the Company received total gross proceeds of HK$30,000,000 (approximately CDN$4.96 million). The remaining 360,186,667 Common Shares (HK$270,140,000 or approximately CDN$44.6 million) subscribed for by Prime Union, which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

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

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company has received total gross proceeds of HK$114,000,000 (approximately CDN$19.2 million).

On August 3, 2016, the Company announced an extension, effective August 2, 2016, for the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union advised Sunshine that it has been working diligently to obtain the regulatory approvals but required additional time.

On October 24, 2016, the Company completed the closing of 13,333,333 Common Shares (the "Prime Union Partial Closing") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.72 million). The remaining 98,453,334 Common Shares (HK$73,840,000 or CDN$12.68 million) subscribed for by Prime Union will be closed in one or more tranches.

On December 1, 2016, the Company completed the closing of the remaining 98,453,334 Common Shares (the "Prime Union Partial Closing") under this Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under the Prime Union Partial Closing, the Company received total gross proceeds of HK$73,840,000 (approximately CDN$12.69 million).

Post-IPO Stock Option Plan

For the three months and year ended December 31, 2016, the Company granted 6,632,943 and 215,539,909 Post-IPO stock options respectively. During the three months and year ended December 31, 2016, there were 14,407,104 and 52,112,560 forfeitures and expiries of stock options. During the three months and year ended December 31, 2016, there were Nil and 241,666 stock options exercised.

Employee Share Savings Plan ("ESSP")

During the year ended December 31, 2015, the Company issued 6,834,537 Class "A" common shares, from the Company's ESSP for gross proceeds of $0.7 million. During the year ended December 31, 2014, the Company issued 5,772,789 Class "A" common shares, from the Company's ESSP for gross proceeds of $0.8 million. The ESSP was discontinued by the Company on August 31, 2015.

Shares Outstanding

As at March 21, 2017, the Company had 5,062,601,358 Class "A" common shares issued and outstanding.

Summary of Financial Statements and Notes

The Board of Directors of the Company announces the results of the Company and its wholly owned subsidiaries, for the three months and year ended December 31, 2016, together with comparative figures for the corresponding periods in 2015 as follows:

Consolidated Statements of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Current assets		
Cash	$ 13,635	$ 6,545
Restricted cash and cash equivalents	-	14,389
Trade and other receivables	2,654	2,253
Prepaid expenses and deposits	5,054	8,119
	21,343	31,306
Non-current assets		
Exploration and evaluation	291,716	290,945
Property, plant and equipment	684,531	650,930
	976,247	941,875
	$ 997,590	$ 973,181
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and accrued liabilities	$ 71,526	$ 47,611
Provisions	581	3,492
Share purchase warrants	-	3
Senior Notes	268,540	266,321
	340,647	317,427
Non-current liabilities		
Provisions	49,488	51,656
	390,135	369,083
Net current assets	(319,304)	(286,121)
Total assets less current liabilities	656,943	655,754
Shareholders' Equity		
Share capital	1,247,302	1,174,987
Reserve for share-based compensation	67,262	62,910
Deficit	(707,109)	(633,799)
	607,455	604,098
	$ 997,590	$ 973,181

Consolidated Statements of Operations and Comprehensive Loss

	For the three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Other income				
Interest income	$ 8	$ 25	$ 43	$ 471
Gain on sale of assets	-	-	2	174
Fair value adjustment on share purchase warrants gains	-	130	3	379
	8	155	48	1,024
Expenses				
Salaries, consulting and benefits	2,296	2,681	6,998	10,746
Rent	347	337	1,355	1,409
Legal and audit	118	139	1,873	1,891
Depreciation and impairment	126	295,159	547	295,593
Share-based compensation	1,011	287	3,803	1,563
Finance costs	13,901	17,857	62,520	47,543
Foreign exchange losses	5,275	7,999	(6,842)	36,306
Contract provision expense	-	36	142	6,636
Other	171	1,421	2,962	5,472
	$ 23,245	$ 325,916	$ 73,358	$ 407,159
Loss before income taxes	23,237	325,761	73,310	406,135
Income taxes	-	-	-	-
Net loss and comprehensive loss for the period attributable to equity holders of the Company	$ 23,237	$ 325,761	$ 73,310	$ 406,135
Basic and diluted loss per share	$ 0.00	$ 0.08	$ 0.02	$ 0.10

Notes

1. Basis of Preparation

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

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

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

Notes (continued)

2. Segment Information

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

3. Trade Receivables

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

	December 31, 2016	December 31, 2015
Trade	$ 1,434	$ 1,184
Accruals and other receivables	1,053	56
Goods and services taxes receivable	167	1,013
	$ 2,654	$ 2,253

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 year:

	December 31, 2016	December 31, 2015
0 - 30 days	$ -	$ 66
31 - 60 days	1	(2)
61 - 90 days	11	2
>90 days	1,422	1,118
	$ 1,434	$ 1,184

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

4. Trade Payables

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

	December 31, 2016	December 31, 2015
Trade		
0 - 30 days	$ 4,514	$ 11,093
31 - 60 days	1,343	6,284
61 - 90 days	750	3,131
> 91 days	20,734	2,210
	27,341	22,718
Accrued liabilities	44,185	24,893
	$ 71,526	$ 47,611

5. Dividends

The Company has not declared or paid any dividends in respect of the three months and year ended December 31, 2016 (2015 - $Nil).

Notes (continued)

6. Income Taxes

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

		December 31, 2016		December 31, 2015
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(119,980)	$	(94,478)
Decommissioning liabilities		13,362		13,947
Share issue costs		1,754		6,790
Non-capital losses		193,894		194,902
Deferred tax benefits not recognized		(89,030)		(121,161)
	$	-	$	-

The Company's non-capital losses of $718,126 (December 31, 2015 - $685,884), expire between 2028 and 2035.

The Company is subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 27.0%. The Company had no assessable profit in Canada for the three months and year ended December 31, 2016. The Company files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable. The estimated tax deductions available to the Company in Canada are approximately $1.3 billion. The Company's tax losses will begin expiring in 2028.

The Company's subsidiary, Sunshine Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong for the three months and year ended December 31, 2016.

Review of Annual Results

The consolidated financial statements for the Company for the year ended December 31, 2016, were reviewed by the Audit Committee of the Company, audited by the Company's external auditor and approved by the Board.

Publication of Information

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

阳光油砂
SUNSHINE OILSANDS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

Deloitte LLP
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Calgary, AB T2P 0R8
Canada

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sunshine Oilsands Ltd.

We have audited the accompanying consolidated financial statements of Sunshine Oilsands Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Oilsands Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flow for the years ended December 31, 2016 and December 31, 2015, in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Sunshine's ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants
March 21, 2017
Calgary, Alberta

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

As at December 31,			2016		2015
Assets	**Notes**				
Current assets					
Cash	4	$	13,635	$	6,545
Restricted cash and cash equivalents	4		-		14,389
Trade and other receivables	5		2,654		2,253
Prepaid expenses and deposits	6		5,054		8,119
			21,343		31,306
Non-current assets					
Exploration and evaluation	7		291,716		290,945
Property, plant and equipment	8		684,531		650,930
			976,247		941,875
		$	997,590	$	973,181
Liabilities and Shareholders' Equity					
Current liabilities					
Trade and accrued liabilities	9	$	71,526	$	47,611
Provisions	11		581		3,492
Share purchase warrants	13.2		-		3
Senior Notes	10		268,540		266,321
			340,647		317,427
Non-current liabilities					
Provisions	11		49,488		51,656
			390,135		369,083
Shareholders' Equity					
Share capital	13		1,247,302		1,174,987
Reserve for share-based compensation			67,262		62,910
Deficit			(707,109)		(633,799)
			607,455		604,098
		$	997,590	$	973,181

Going concern (Note 2)
Commitments and contingencies (Note 20)
Subsequent events (Note 22)

Approved by the Board

"Gerry Stevenson"
Director

"Qiping Men"
Executive Director

See accompanying notes to the consolidated financial statements.

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

For the year ended December 31,	Notes	2016	2015
Interest income		$ 43	$ 471
Gain on sale of assets	7, 8	2	174
Fair value adjustment on share purchase warrants	13.2	3	379
		48	1,024
Expenses			
Salaries, consulting and benefits		6,998	10,746
Rent		1,355	1,409
Legal and audit		1,873	1,891
Depreciation and impairment	7, 8	547	295,593
Share-based compensation	14.5	3,803	1,563
Finance costs	15	62,520	47,543
Foreign exchange (gains)/losses	17.6	(6,842)	36,306
Contract provision expense	11.2	142	6,636
Other		2,962	5,472
		$ 73,358	$ 407,159
Loss before income taxes		73,310	406,135
Income taxes	12	-	-
Net loss and comprehensive loss		$ 73,310	$ 406,135
Basic and diluted loss per share	16	$ 0.02	$ 0.10

See accompanying notes to the consolidated financial statements.

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, 2015		$	62,910	$	1,174,987	$	(633,799)	$	604,098
Net loss and comprehensive loss for the year			-		-		(73,310)		(73,310)
Issue of common shares	13.1		-		72,695		-		72,695
Recognition of share-based compensation	14.5		4,362		-		-		4,362
Issue of shares upon exercise of share options	13.1		-		15		-		15
Reserve transferred on exercise of share options	13.1		(10)		10		-		-
Share issue costs, net of deferred tax ($Nil)	13.1		-		(405)		-		(405)
Balance, December 31, 2016		$	67,262		1,247,302		(707,109)		(607,455)
Balance, December 31, 2014		$	60,658	$	1,139,022	$	(227,664)	$	972,016
Net loss and comprehensive loss for the year			-		-		(406,135)		(406,135)
Issue of common shares	13.1		-		35,287		-		35,287
Issue of shares under employee share savings plan	13.1		-		711		-		711
Recognition of share-based compensation	14.5		2,307		-		-		2,307
Issue of shares upon exercise of share options	13.1		-		108		-		108
Reserve transferred on exercise of share options	13.1		(55)		55		-		-
Share issue costs, net of deferred tax ($Nil)	13.1		-		(196)		-		(196)
Balance, December 31, 2015		$	62,910	$	1,174,987	$	(633,799)	$	604,098

See accompanying notes to the consolidated financial statements.

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

	Notes		For the years ended December 31, 2016		2015
Cash flows used in operating activities					
Net loss		$	(73,310)	$	(406,135)
Finance costs			62,520		47,543
Unrealized foreign exchange (gains)/losses	17.6		(7,159)		34,474
Contract provision expense	11.2		75		6,636
Interest income			(43)		(471)
Gain on sale of assets	7, 8		(2)		(174)
Fair value adjustment on share purchase warrants	13.2		(3)		(379)
Depreciation and impairment	7, 8		547		295,593
Share-based compensation	14.5		3,803		1,563
Employee share savings plan	14.2		-		356
Movement in non-cash working capital	21		10,154		2,714
Net cash used in operating activities			(3,418)		(18,280)
Cash flows used in investing activities					
Interest received			43		471
Proceeds from sale of assets	7, 8		2		447
Payments for exploration and evaluation assets	7		(1,344)		(1,375)
Payments for property, plant and equipment	8		(36,145)		(153,367)
Release of restricted cash to fund long-term debt interest payments	4		14,389		20,679
Movement in non-cash working capital	21		10,486		9,151
Net cash used in investing activities			(12,569)		(123,994)
Cash flows provided in financing activities					
Proceeds from issue of common shares	13.1		72,710		35,751
Payment for share issue costs	13.1		(405)		(196)
Cash portion of finance costs	15		(51,514)		(32,221)
Movement in non-cash working capital	21		2,770		1,882
Net cash provided by financing activities			23,561		5,216
Effect of exchange rate changes on cash held in foreign currency	17.6		(484)		7,506
Net increase / (decrease) in cash			7,090		(129,552)
Cash, beginning of year			6,545		136,097
Cash, end of year		$	13,635	$	6,545

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, unless otherwise indicated)

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 Unit 8504A, 85/F, International Commerce Centre 1 Austin Road West, Kowloon.

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 December 31, 2016, no activity has occurred in Boxian. The purpose of Boxian is to pursue new investment opportunities.

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 Consolidated 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.

Recently the Company has been 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 December 31, 2016.

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 December 31, 2016, 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 Group's ability to continue as a going concern.

2. Basis of preparation (continued)

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

- Sunshine has 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, as;
- 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 20, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") 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 make 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 20, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 20, 2017, which has been paid on March 20, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will 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 March 20, 2017, Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $11,209,728 of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 20, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

On March 1, 2017, the West Ells Phase I project, located in the Athabasca region of Alberta, achieved commercial production. This marked a key milestone for the Corporation, following which the Project will be treated as a fully operational and commercialized project. The Company ceased capitalization of the petroleum revenue, royalties, diluent, costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project under IFRS effective March 1, 2017.

The consolidated 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

2. Basis of preparation (continued)

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 consolidated 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (Note 17). The consolidated financial statements are presented in Canadian Dollars ("$"), which is the functional currency of the Company.

2.2 Critical accounting judgments and key sources of estimation uncertainty

In applying the Company's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the affected periods.

2.2.1 Critical judgments and estimates in applying accounting policies

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

Joint Control

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

Oil and gas reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Reserve estimates are based on, among other things, forecasts of production, prices, cost estimates and economic conditions.

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production, prices and other economic conditions;

- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and

- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Company's development and production assets are determined using proved plus probable reserves.

2.2.1 Critical judgments and estimates in applying accounting policies (continued)

Impairment of non-financial assets

The recoverable amounts of cash generating units ("CGU") and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. Oil and gas development and production properties are evaluated for impairment by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules. It is possible that oil and gas price assumptions may change which may then impact the estimated life of fields and may then require a material adjustment to the carrying value of exploration and evaluation assets and property, plant and equipment. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Recoverability of exploration and evaluation costs

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

Decommissioning costs

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

Share-based compensation

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

Fair Value Measurement

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

Deferred income taxes

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

3. Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the Company's wholly owned subsidiary, Sunshine Hong Kong and Boxian.

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements when control is achieved and until control is lost. Inter-company transactions, balances, revenues and expenses are eliminated on consolidation.

3.2 Oil and Natural Gas Exploration and Development Expenditures

Exploration and evaluation assets

E&E Assets are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, exploration and evaluation drilling, directly attributable general and administrative costs (including share-based compensation costs), borrowing costs, consequential operating costs net of revenues, and the initial estimate of any decommissioning obligation associated with the assets. The costs directly associated with an exploration well are capitalized as intangible E&E Assets until the drilling of the well is complete and the results have been evaluated.

Pre-acquisition costs for oil and gas assets are recognised in the consolidated statements of operations and comprehensive loss when incurred. Acquisition of undeveloped mineral leases is initially capitalized as E&E Assets and charged to consolidated statements of operations and comprehensive loss upon the expiration of the lease, impairment of the asset or management's determination that no further exploration or evaluation activities are planned on the lease, whichever comes first. E&E Assets can be further broken down into tangible and intangible assets. Intangible costs are all costs considered necessary to drill a well and ready a site prior to the installation of the production equipment. Tangible drilling costs are those incurred to purchase and install the production equipment and includes production facilities.

The decision to transfer assets from exploration and evaluation to development and producing assets (included in property, plant and equipment ("PPE")) occurs when the technical feasibility and commercial viability of the project is determined, based on proved and probable reserves being assigned to the project.

Impairment

If no economically recoverable reserves are found upon evaluation, the exploration asset is tested for impairment and the difference between the carrying amount and the recoverable amount are charged to the consolidated statements of operations and comprehensive loss. If extractable reserves are found and, subject to further appraisal activity which may include the drilling of additional wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while progress is made in assessing the commerciality of the reserves. All such carried costs are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. Lack of intent to develop or otherwise extract value from such discovery would result in the relevant expenditures being charged to the consolidated statements of operations and comprehensive loss. When economically recoverable reserves are determined and development is approved, the relevant carrying value is transferred to property, plant and equipment.

E&E Assets are assessed for the indictors of impairment at the end of each period. The assessment for impairment is completed on a CGU basis. After impairment is assessed, any carrying amounts which exceed recoverable amounts, by CGU, on the E&E Assets are written down to the recoverable amount through the consolidated statements of operations and comprehensive loss.

Impairment losses recognised in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

3.3 Property, plant and equipment

Carrying value

PP&E includes computer and office equipment and development and production assets (includes crude oil assets), which are stated at cost less the total of accumulated depreciation and accumulated impairment losses. The initial cost of a PP&E consists of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation associated with the asset and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid, including the fair value of any other consideration given to acquire the asset.

3.3 Property, plant and equipment (continued)

Suspension costs

Suspension costs, which are the costs related to the suspension of a capital project, such as those costs incurred to ensure safety of the worksite and preservation of an asset that are not directly attributable to the development of an asset are expensed through the consolidated statements of operations and comprehensive loss.

Depletion and depreciation

Depletion of development and production costs (crude oil assets), included in PP&E, and depreciation of production equipment are measured on the unit-of-production method based upon estimated proved plus probable recoverable oil and natural gas reserves before royalties in each CGU as determined by independent engineers. For purposes of this calculation, reserves are converted to barrel of oil equivalent units based on their approximate energy content at six thousand cubic feet of natural gas to one barrel of oil.

In-situ oil sands processing facilities and support equipment are depreciated on a straight-line basis over their estimated useful lives. Office furniture, equipment, computers and vehicles are depreciated on a declining balance basis between 20 and 30 percent per year.

Impairment

At the end of each reporting period, the Company reviews the PP&E for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing, which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other property, plant and equipment assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of estimated recoverable reserves.

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU, or group of CGUs and then reducing the carrying amount of other assets of the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognised as an expense in the consolidated statements of operations and comprehensive loss.

Where an impairment loss subsequently reverses or decreases, the carrying amount of the assets or CGU is increased to the revised estimate of its recoverable amount, with the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior periods. A reversal of an impairment loss is recognised immediately in the consolidated statements of operations and comprehensive loss, unless the relevant asset is carried at the revalued amount, in which cases the reversal of the impairment loss is treated as a revaluation increase.

Corporate assets are allocated to each CGU on the basis of proportionate future net revenue calculated consistent with the recoverable amount in the most recent impairment test.

Maintenance and repairs

Major repairs and maintenance consists of replacing assets or substantial parts of an asset. Where an asset or substantial part of an asset is replaced and it is probable that future economic benefits associated with the replacement will flow to the Company, the expenditure is capitalized and depreciated over the remaining life of the asset. The net carrying value of the asset or substantial part being replaced is derecognized at the time the replacement is capitalized. All other maintenance costs are expensed as incurred.

3.4 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.4 Provisions (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.4.1 Decommissioning costs

Decommissioning costs and liabilities for statutory, contractual, constructive or legal obligations associated with site restoration and abandonment of tangible long-lived assets are initially measured at a fair value which approximates the cost the Company would incur in performing the tasks necessary to abandon the field and restore the site. Fair value is recognised in the consolidated statement of financial position at the present value of expected future cash outflows to satisfy the obligation as a liability, with a corresponding increase in the related asset, and is depleted or depreciated using the unit-of-production method over the estimated remaining proved plus probable oil and gas reserves before royalties, or the straight-line method, as appropriate. Subsequent to initial measurement, the effect of the passage of time on the liability for the decommissioning obligation (accretion expense) is recognised in the consolidated statements of operations and comprehensive loss as finance costs. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the obligation and the recorded liability is recognised as a gain or loss in the consolidated statements of operations and comprehensive loss in the period in which the settlement occurs.

3.5 Share-based compensation

3.5.1 Equity-settled share-based compensation

Share options and preferred shares issued to employees

Equity-settled share-based compensation to directors and employees are measured at the fair value of the equity instruments, less the fair value of the proceeds received on issuing the equity instruments at the issue date.

The fair value of the equity instruments, including share options, warrants or preferred shares, expected to vest as determined at the issue date of the equity-settled share-based compensation is expensed on a graded vesting basis over the vesting period, unless the services are directly attributable to qualifying assets, with a corresponding increase in reserve for share based compensation.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statements of operations and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserve for share based compensation.

At the time when the equity instruments are exercised or converted, the amount previously recognised in reserve for share based compensation will be transferred to share capital. In the event vested equity instruments are forfeited, previously recognized share-based compensation associated with such instrument is not reversed. If unvested instruments are forfeited, previously recognized share-based compensation is reversed.

The Company records compensation expense at the date of issue, based on fair value and management's best estimates.

Share options and preferred shares issued to non-employees

Equity-settled share-based compensation transactions, with parties other than employees and directors, are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments issued, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (reserve for share based compensation), when the Company obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets or directly attributable to qualifying assets.

3.5.2 Cash-settled share-based compensation transactions

For cash-settled share-based compensation (including SARs), the Company measures the goods or services acquired and the fair value of the liability incurred. At the end of each reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in the consolidated statements of operations and comprehensive loss.

3.6 Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. The financial assets are initially measured at fair value, including transaction costs. Financial assets which have been classified as at fair value through profit or loss, are initially measured at fair value and transaction costs are expensed when incurred.

3.6.1 Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated statements of operations and comprehensive loss. The net gain or loss recognised in the consolidated statements of operations and comprehensive loss incorporates any dividend or interest earned on the financial asset.

3.6.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables and deposits) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below). Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.6.3 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3.6.3 Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is expensed against the allowance account. Subsequent recoveries of amounts previously expensed are charged against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statements of operations and comprehensive loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.6.4 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The difference between the asset's carrying amount and the sum of the consideration received (and/or receivable), and the cumulative gain or loss that had been recognised in other comprehensive loss and accumulated in equity is recognised in the consolidated statements of comprehensive loss.

3.7 Financial liabilities and equity instruments issued by the Company

3.7.1 Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the terms of the arrangement.

3.7.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded, based on the proceeds received, net of direct issue costs.

3.7.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

The Company has classified its share purchase warrants at FVTPL.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The Company has classified its trade and accrued liabilities and borrowings as other financial liabilities.

3.7.4 Derecognition of financial liabilities

The Company derecognises financial liabilities when the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statements of operations and comprehensive loss.

3.8 Derivatives and embedded derivatives

Derivative instruments include financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of derivatives are recognized immediately in profit or loss.

3.9 Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

3.9.1 Current tax

Tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statements of operations and comprehensive loss because of items of income or expense that are taxable or deductible in other years and permanent items which are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.9.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are recognised as an expense or income, in the consolidated statements of operations and comprehensive loss, except when they relate to items that are recognised in other comprehensive loss or directly in equity, in which case the tax is recognised in other comprehensive loss or directly in equity.

3.10 Cash

Cash and cash equivalents includes cash and short-term investments, such as money market deposits or similar type instruments, with a maturity of ninety days or less when purchased.

3.11 Restricted cash and cash equivalents

Restricted cash and cash equivalents includes cash held in a treasury note within a restricted escrow account.

3.12 Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period. Foreign exchange gains and losses are included in consolidated statements of operations and comprehensive loss.

3.13 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in the consolidated statements of operations and comprehensive loss in the period in which they are incurred.

Between the dates the West Ells SAGD project recommenced and the expected date the West Ells asset is to be ready for use, the Company did not capitalize borrowing costs incurred from the senior secured notes.

3.15 Jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Company and other partners of assets contributed to or acquired for the purpose of the jointly controlled assets, without the formation of a corporation, partnership or other entity.

The Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with its partners, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the jointly controlled asset and any expenses it incurs in relation to its interest in the jointly controlled assets.

3.16 Future accounting policy changes

On January 19, 2016, the IASB issued amendments to IAS12, Income Taxes, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Amendments to IAS 12 will be applied on a retrospective basis by the Corporation on January 1, 2017. The adoption of this amended standard is not expected to have a material impact on the Company's consolidated financial statements.

On January 29, 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows, as part of its disclosure initiative. The amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of this amended standard will have required disclosure impacts that enable users of financial statements to evaluate changes in liabilities arising from financing activities on the Company's' consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of these amendments on the Company's consolidated financial statements.

3.16 Future accounting policy changes (continued)

In May 2014, the IASB published IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively in full or by applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments" which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporting issuers to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. The Company does not employ hedge accounting for its risk management contracts currently in place. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company is currently assessing and quantifying the potential effect on its financial statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company’s financial statements.

4. Cash, restricted cash and cash equivalents

		2016		2015
Current asset				
Cash[1]	$	13,635	$	6,545
Current restricted cash and cash equivalents[2]		-		14,389
	$	13,635	$	20,934

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%.
2. The USD $200 million senior secured notes issued in August 2014 required USD $30 million of proceeds to be held in a restricted escrow account to cover the first three semi-annual interest payments on the senior secured notes. On February 1, 2016, the third interest payment of USD $10 million was paid from the restricted escrow account. There is Nil remaining in the restricted escrow account.

5. Trade and other receivables

		2016		2015
Trade	$	1,434	$	1,184
Accruals and other receivables		1,053		56
Goods and Services Taxes receivable		167		1,013
	$	2,654	$	2,253

As at December 31, 2016, included in the Company’s trade receivables was an aggregate carrying amount of $1.4 million (December 31, 2015 - $1.2 million), which was past due as at the reporting date. The Company does not hold any collateral over these balances.

6. Prepaid expenses and deposits

		2016		2015
Prepaid expenses	$	1,067	$	518
Deposits		3,987		7,601
	$	5,054	$	8,119

As at December 31, 2016, the deposits include $3.2 million held with the Alberta Energy Regulator for the Licensee Liability Rating Program (by February 22, 2017, $3.2 million had been refunded in total). The remaining deposits include ordinary business deposits of $0.7 million.

7. Exploration and evaluation

Balance, December 31, 2014	$	379,403
Capital expenditures		1,375
Non-cash expenditures[1]		167
Impairment		(90,000)
Balance, December 31, 2015	$	290,945
Capital expenditures		1,344
Non-cash expenditures[1]		(573)
Balance, December 31, 2016	$	291,716

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

The Company is a development stage entity and, as a result, no depletion expense has been recorded for exploration and evaluation ("E&E") assets for any period. During the year ended December 31, 2016 and 2015, the Company capitalized directly attributable costs/ (recovery) including $Nil for share-based compensation and $0.1 million of general and administrative costs.

Gross exploration and evaluation costs (before impairment) are comprised of the following:

		2016		2015
Intangibles	$	270,417	$	272,278
Tangibles		19,584		18,683
Land and lease costs		91,175		89,984
	$	381,716	$	380,945

Impairment

As at December 31, 2016, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues based on forecasted oil and gas prices; (iii) future development costs and production expenses; and (iv) the discount rate and risk factors to be applied to such revenues and costs for the purposes of deriving a recoverable value.

Reserve and resource values were based on the Company's December 31, 2016 reserve report as prepared by its independent reserve engineers. The recoverable amount of the E&E Assets was estimated based on proved plus probable reserves plus risked best estimate contingent resources using a pre-tax discount rate of 12 percent with a further discount factor of 62.5 percent applied to best estimate contingent resources.

For the year ended December 31, 2016, the Company recognized an impairment of $Nil (December 31, 2015 - $90 million) on its E&E Assets as the estimated recoverable amount exceeded the carrying value.

8. Property, plant and equipment

	Crude oil assets	Corporate assets	Total
Cost			
Balance, December 31, 2014	$ 699,948	$ 3,748	$ 703,696
Capital expenditures	152,207	1,160	153,367
Disposal of asset	-	(446)	(446)
Non-cash expenditures[1]	1,693	-	1,693
Balance, December 31, 2015	$ 853,848	$ 4,462	$ 858,310
Capital expenditures	35,970	175	36,145
Non-cash expenditures[1]	(1,997)	-	(1,997)
Balance, December 31, 2016	$ 887,821	$ 4,637	$ 892,458

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

	Crude oil assets	Corporate assets	Total
Accumulated depreciation and impairment			
Balance, December 31, 2014	$ -	$ 1,960	$ 1,960
Disposal	-	(173)	(173)
Depreciation expense	-	593	593
Impairment	205,000	-	205,000
Balance, December 31, 2015	$ 205,000	$ 2,380	$ 207,380
Depreciation expense	-	547	547
Balance, December 31, 2016	$ 205,000	$ 2,927	$ 207,927
Carrying value, December 31, 2015	$ 648,848	$ 2,082	$ 650,930
Carrying value, December 31, 2016	**$ 682,821**	**$ 1,710**	**$ 684,531**

At December 31, 2016, the crude oil assets included in the above property, plant and equipment were not subject to depletion since they are not ready for use in the manner intended by management.

During the year ended December 31, 2016, the Company capitalized directly attributable costs including $0.6 million for share-based compensation (2015 - $0.7 million) and $3.2 million for general and administrative costs (2015 – $6.0 million).

During the second quarter of 2015, the Company was reimbursed for leasehold improvement expenditures that had previously been capitalized. Pursuant to the sublease agreement, the Company received proceeds of $0.4 million which resulted in derecognition of the asset and a gain of $0.2 million was recognized.

As at December 31, 2016, the Company did not identify any indicators of further impairment (or reversal of the original impairment recorded at December 31, 2015) of the West Ells CGU.

9. Trade and accrued liabilities

	2016	2015
Trade	$ 27,341	$ 22,718
Accrued liabilities	44,185	24,893
	$ 71,526	$ 47,611

10. Senior Notes

	2016	2015
Senior secured notes (USD $200,000,000)	$ 268,540	$ 276,800
Discount on notes	(16,168)	(17,159)
Financing transaction costs on notes	(11,846)	(11,846)
Amortization of financing transaction costs and discount	28,014	18,526
Balance, end of year	$ 268,540	$ 266,321

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. Interest payments are payable semi-annually on February 1 and August 1 of each year.

10. Senior Notes (continued)

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 with the noteholders.

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

- Sunshine has 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, as;
- 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 20, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") 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 make 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 20, 2017, only USD $1.0 million have been paid.

Other payments contemplated in the FRA include:

- Payment of all legal professional fees by March 20, 2017, which has been paid as of March 20, 2017;
- 80% of the YMP will be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million will be repaid on August 1, 2017 in cash;
- the Company agreed to repay bond principal on 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 March 20, 2017 Sunshine agreed to repurchase and the Bondholders have agreed to sell USD $11,209,728,000 of Senior Notes in exchange for common shares of Sunshine. Sunshine is required to pay a Further Forbearance Fee to the extent that the 60 day average price of Sunshine's common shares beginning on March 20, 2017 is less than the share issuance price in the Note Exchange Agreement. This Further Forbearance Fee is payable on August 1, 2017 or earlier if the Senior Notes are repaid.

The Company has presented the Notes as a current liability on Consolidated Statements of Financial Position as at December 31, 2016.

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

10. Senior Notes (continued)

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.

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 December 31, 2016, the Company had incurred $8.0 million (USD $6.0 million equivalent using the year 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 $1US = 1.3427CDN.

11. Provisions

		2016		2015
Decommissioning obligations (Note 11.1)	$	49,488	$	51,656
Contract provision (Note 11.2)		581		3,492
	$	50,069	$	55,148
Presented as:				
Provisions (current)	$	581	$	3,492
Provisions (non-current)	$	49,488	$	51,656

11.1 Decommissioning obligations

As at December 31, 2016, the Company's share of the estimated total undiscounted cash flows required to settle asset decommissioning obligations was $80.1 million (December 31, 2015 - $81.8 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 between 0.48% to 2.04% per annum and inflated using an inflation rate of 2.0% per annum.

		2016		2015
Balance, beginning of year	$	51,656	$	49,484
Effect of changes in discount rate		(3,128)		1,117
Unwinding of discount rate		960		1,055
	$	49,488	$	51,656
Current portion		-		-
Balance, end of year	$	49,488	$	51,656

11.2 Contract provision

As at December 31, 2016, the Company had fully recognized a liability provision related to obligations under a drilling rig contract of $0.6 million (December 31, 2015 - $6.6 million). The $0.6 million represents the maximum obligation required if the drilling rig was not utilized over the remaining term of the contract, which ended in the fourth quarter of 2016. At December 31, 2016, this obligation was broken into a $5.6 million payable and a $0.6 million provision (December 31, 2015 - $3.1 million payable and $3.5 million provision). For the year ended December 31, 2016, the Company paid $0.6 million against the obligation.

12. Income taxes

12.1 Income taxes recognized in the Statement of Operations

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rate of 27.0% (2015 – 27.0%) to earnings before income taxes for the following reasons:

12.1 Income taxes recognized in the Statement of Operations (continued)

For the year ended December 31,		2016		2015
Net loss before taxes	$	(73,310)	$	(406,135)
Tax rate (%)		27.0%		27.0%
Expected income tax recovery		(19,794)		(109,656)
Effect of expenses that are not deductible in determining taxable profit:				
Share based payment expense		1,027		422
Capital portion of foreign exchange		(1,925)		9,295
Unrecognized tax assets				
Changes to opening tax pools		1,962		216
Change in deferred tax benefits not recognized		18,730		99,723
Income tax recovery	$	-	$	-

12.2 Deferred tax balances

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

		December 31, 2016		December 31, 2015
Deferred tax assets (liabilities)				
Exploration and evaluation assets and property, plant and equipment	$	(119,980)	$	(94,478)
Decommissioning liabilities		13,362		13,947
Share issue costs		1,754		6,790
Non-capital losses		193,894		194,902
Deferred tax benefits not recognized		(89,030)		(121,161)
	$	-	$	-

12.3 Tax pools

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

		December 31, 2016		December 31, 2015
Canadian development expense	$	36,163	$	42,888
Canadian exploration expense		230,926		230,899
Undepreciated capital cost		264,788		318,168
Non-capital losses		718,126		685,884[1]
Share issue costs		6,497		25,112[1]
	$	1,256,500	$	1,302,951

1. 2015 estimated tax pools have been updated to actual tax pool at the end of year.

The Company's non-capital losses of $718,126 (December 31, 2015 - $685,884), 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; and
- an unlimited number of Class "C", Class "D", Class "E" and Class "F" non-voting common shares without par value; and,
- an unlimited number of Class "G" and Class "H" non-voting preferred shares.

Issued Capital

		2016		2015
Common shares	$	1,247,302	$	1,174,987

13.1 Common shares

For year ended December 31,	2016		2015	
	Number of shares	$	Number of shares	$
Balance, beginning of year	4,230,264,104	1,174,987	3,896,103,191	1,139,022
Private placements – specific mandate	413,520,000	52,350	111,214,210	14,073
Private placements – general mandate	358,575,588	20,345	215,037,000	21,214
Issue of shares under employee share savings plan (Note 14.2)	-	-	6,834,537	711
Issue of shares under share option plan (Note 14.5)	241,666	15	1,075,166	108
Share option reserve transferred on exercise of stock options	-	10	-	55
Share issue costs, net of deferred tax ($Nil)	-	(405)	-	(196)
Balance, end of year	5,002,601,358	1,247,302	4,230,264,104	1,174,987

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.

General mandate

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

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

Completion of the Placement was to occur on or before May 14, 2016 (or such other date as the Company may choose) (the “Closing Date”). In the event that (i) the Company suffers a material adverse change in the management, business, properties, financial condition, prospects, shareholders' equity or results of operation of the Company shall have occurred or been announced since the date of the Subscription Agreement; or (ii) any adverse change in the oil price and/or general market conditions and/or the share price of the Company takes place after the date of the Subscription Agreement, the Subscription Agreement may be terminated by the Subscriber by written notice, and in which case, the obligations of the Company and the Subscriber under the Subscription Agreement would immediately and unconditionally cease and be null and void.

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

On May 16, 2016, the Company announced, effective May 14, 2016, an extension of the remaining 470,589,500 Common Shares (HK$160,000,430 or CDN$26.0 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than June 30, 2016.

On June 22, 2016, the Company completed the closing of 58,871,000 Common Shares, subscribed for by Bright Hope at a price of HK$0.34 per Common Share (approximately CDN$0.056 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$20,016,140 (approximately CDN$3.3 million). In addition, an introduction fee of HK$400,323 (approximately CDN$0.1 million) being 2% of the gross proceeds of the Partial Closing, has been incurred in relation to the Partial Closing.

On July 4, 2016, the Company announced, effective June 30, 2016, an extension of the remaining 411,718,500 Common shares (HK$139,984,290 or CDN$23.1 million) subscribed for by Bright Hope be closed in one or more remaining tranches, with the last tranche closing no later than August 31, 2016.

13. Share capital (continued)

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

On October 24, 2016, the Company completed the closing of 137,941,176 Common Shares at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon the Partial Closing, the Company received total gross proceeds of HK$46,900,000 (approximately CDN$8.05 million). In addition, an introduction fee of HK$937,995.40 (approximately CDN$160,927.03) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company completed the closing of 23,529,412 Common Shares subscribed for by Bright Hope (at a price of HK$0.34 per Common Share (approximately CDN$0.06 per Common Share). Upon Partial Closing, the Company received total gross proceeds of HK$8,000,000 (approximately CDN$1.38 million). In addition, an introduction fee of HK$160,000 (approximately CDN$27,619) being 2% of the gross proceeds of the Partial Closing was incurred in relation to the Partial Closing.

On October 31, 2016, the Company announced an extension of the remaining 250,247,912 Common Shares (approximately HK$85,084,290 or CDN$14.69 million) subscribed for by Bright Hope Investments Limited to be closed in one or more remaining tranches, with the last tranche closing no later than January 31, 2017.

Subsequent to the announcement dated October 31, 2016 of the further extension to the closing date of the Bright Hope subscription agreement regarding to the remaining 250,247,912 Common Shares, the Company had been informed by the Stock Exchange that the Company's agreement on October 30, 2016 to issue shares to Bright Hope on or before the extended closing date of January 31, 2017 did not comply with the allowable pricing discount provisions of the Listing Rules and, as such, the Company cannot issue those remaining Common Shares under the Private Placement under the General Mandate. As a result, the Company and Bright Hope determined to mutually terminate the subscription agreement effective November 21, 2016 (Hong Kong time).

On December 7, 2016, the Company entered into a subscription agreement with a third party for a total of 50,000,000 class “A” common shares at a price of HK$0.321 per share (approximately CDN$0.054 per common share), for gross proceeds of HK$16.05 million (approximately CDN$2.7 million). On December 14, 2016 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$120,375 (approximately CDN$0.02 million), had been 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 150,000,000 Class “A” Common Voting Shares of the Company (“Common Shares”) at a price of HK$0.29 per Common Share or approximately CDN$0.048 per Common Share, which in the aggregate amounts to gross proceeds of HK$43.5 million (approximately CDN$7.6 million).

Specific mandate

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

On June 3, 2016, the Company completed the closing of 13,333,333 Common Shares subscribed for by Prime Union at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.68 million).

On June 23, 2016, the Company completed the closing of 40,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.124 per Common Share). Under which, the Company received total gross proceeds of HK$30,000,000 (approximately CDN$4.96 million). The remaining 360,186,667 Common Shares (HK$270,140,000 or approximately CDN$44.6 million) subscribed for by Prime Union, which will be closed in one or more tranches with the last tranche closing no later than August 2, 2016.

13. Share capital (continued)

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

On July 31, 2016, the Company completed the closing of 152,000,000 Common Shares at a price of HK$0.75 per Common Share (approximately CDN$0.126 per Common Share). Under which, the Company has received total gross proceeds of HK$114,000,000 (approximately CDN$19.2 million).

On August 3, 2016, the Company announced an extension, effective August 2, 2016, for the remaining 111,786,667 Common shares (HK$83,840,000 or CDN$14.1 million) subscribed for by Prime Union Limited to be closed in one or more remaining tranches, with the last tranche closing no later than December 1, 2016. Prime Union advised Sunshine that it has been working diligently to obtain the regulatory approvals but required additional time.

On October 24, 2016, the Company completed the closing of 13,333,333 Common Shares (the "Prime Union Partial Closing") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common

Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK$10,000,000 (approximately CDN$1.72 million).

On December 1, 2016, the Company completed the closing of the remaining 98,453,334 Common Shares (the "Prime Union Partial Closing") under the Specific Mandate at a price of HK$0.75 per Common Share (approximately CDN$0.13 per Common Share). Under this Prime Union Partial Closing, the Company received total gross proceeds of HK$73,840,000 (approximately CDN$12.69 million).

Post-IPO stock option plan

For the twelve months ended December 31, 2016, the Company issued 241,666 Class "A" common shares, from the exercise of 241,666 stock options at a weighted price of CDN$0.064 per share for cash proceeds of CDN$ 0.02 million. During the year ended December 31, 2015, the Company issued 1,075,166 Class "A" common shares, from the exercise of 1,075,166 stock options at a weighted average price of CDN$0.10 per share for cash proceeds of CDN$0.1 million.

2015 activity

General Mandate

On September 20, 2015, the Company entered into subscription agreement for a total of 100,000,000 class "A" common shares at a price of HK$0.50 per share (approximately CDN$0.08 per share on September 20, 2015) which in the aggregate amounts to gross proceeds of HK$50 million (approximately CDN$8.6 million on September 20, 2015). On September 30, 2015 the Company completed the closing of this subscription agreement.

On November 9, 2015, the Company entered into a subscription agreement for a total of 36,912,000 class "A" common shares at a price of HK$0.63 per share (approximately CDN$0.11 per common share on November 9, 2015), for gross proceeds of HK$23.3 million (approximately CDN$4.0 million on November 9, 2015). On November 23, 2015 the Company completed the closing of this subscription agreement.

On November 12, 2015, the Company entered into a subscription agreement for a total of 78,125,000 class "A" common share at a price of HK$0.64 per share (approximately CDN$0.11 per share), for gross proceeds of HK$50 million (approximately CDN$8.6 million on November 12, 2015). On November 30, 2015 the Company completed the closing of this subscription agreement.

Specific Mandate

On May 31, 2015, the Company entered into subscription agreements which were approved by independent shareholders at the SGM held on July 20, 2015. An aggregate of 524,734,210 subscription shares at the price of HK$0.75 (approximately CDN$0.12 on May 31, 2015), for aggregate cash consideration of HK$393.6 million (approximately CDN$63.3 million on May 31, 2015). During the year ended December 31, 2015, the Company issued 111,214,210 Class "A" common shares in private placements under specific mandate at a price of HK$0.75 per share (approximately $0.13 per share) for gross proceeds of HK$83.4 million or approximately CDN$14.1 million.

13. Share capital (continued)

During the year ended December 31, 2015, the Company issued 6,834,537 Class “A” common shares, from the Company’s employee share savings plan (“ESSP”) for gross proceeds of $0.7 million. The ESSP was discontinued by the Company on August 31, 2015.

13.2 Share purchase warrants

	December 31, 2016		December 31, 2015	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Balance, beginning of period	132,910,941	0.34	211,230,941	0.28
Expired	(132,910,941)	0.34	(78,320,000)	0.34
Balance, end of period	-	-	132,910,941	0.34
Exercisable, end of period	-	-	132,910,941	0.34

During the year ended December 31, 2016, 132,910,941 remaining share purchase warrants expired. As at December 31, 2016, the share purchase warrants outstanding had a weighted average remaining contractual life of Nil years (December 31, 2015 – 0.12 years).

The table below details the fair value of warrants during the years noted:

	December 31, 2016		December 31, 2015	
Balance, beginning of period	$	3	$	382
Fair value adjustment		(3)		(379)
Balance, end of period	$	-	$	3

14. Share-based compensation

14.1 Employee stock option plan

Post-IPO Stock Option Plan

On January 26, 2012, the Post-IPO Stock Option Plan was approved and adopted by shareholders at the Company’s Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Company’s IPO closing and listing on the SEHK, March 1, 2012. The maximum number of Class “A” common shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the options already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the Annual and Special Meeting of Shareholders on June 13, 2013. As a result of the amendment, Options granted under the Post-IPO Stock Option Plan have an exercise price that is determined by the Board of Directors but is not less than the higher of: the closing price on the Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the shares on Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the shares on the Toronto Stock Exchange or the Stock Exchange of Hong Kong (whichever is higher) for the five trading days immediately preceding the option offer date.

***14.2 Employee share savings plan* (“ESSP”)**

The Company’s Board of Directors and shareholders approved the establishment of an ESSP on May 7, 2013. The maximum number of Class “A” common shares that may be reserved for issuance pursuant to the ESSP is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the ESSP and the shares issuable on the exercise of options granted under the Post IPO Share Option Plan and the Pre IPO Plan. Under the terms of the ESSP, the Company matched 100% of a participating employee’s contributions to the ESSP up to a set maximum. Contributions made by the Company and employees were used to purchase Company shares. Compensation expense is recognized based on the fair value of the award on the ESSP contribution date. The ESSP was discontinued by the Company on August 31, 2015.

14.3 Fair value of share options granted in the year

The weighted average fair value of the share options granted for the year ended December 31, 2016 was $0.09 (year ended December 31, 2015 - $0.12). 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 2016 and 2015. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 13.39% to 14.65%.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted in the year for share-based compensation:

Input Variables	2016	2015
Grant date share price ($)	0.058-0.10	0.10-0.14
Exercise Price ($)	0.058-0.10	0.10-0.14
Expected volatility (%)	66.40-70.70	67.01-73.99
Option life (years)	3.76-4.07	4.10-4.11
Risk-free interest rate (%)	0.56-0.88	0.68-0.90
Expected forfeitures (%)	13.39-14.65	11.01-11.51

14.4 Movements in stock options

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

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance, beginning of period	95,554,786	0.31	135,727,289	0.30
Granted	215,539,909	0.09	9,065,387	0.12
Exercised	(241,666)	0.06	(1,075,166)	0.10
Forfeited	(45,542,821)	0.29	(20,121,953)	0.20
Expired	(6,569,739)	0.44	(28,040,771)	0.28
Balance, end of period	258,740,469	0.13	95,554,786	0.31
Exercisable, end of period	122,243,920	0.17	71,686,715	0.35

As at December 31, 2016, stock options outstanding had a weighted average remaining contractual life of 4.4 years (December 31, 2015 – 2.9 years).

The Company granted 215,539,909 stock options during the year ended December 31, 2016. The stock options were granted to chief executives, directors and employees. 42,111,000 of the stock options were granted to Mr. Kwok Ping Sun conditionally subject to shareholder approval at the next general meeting of the shareholders.

14.5 Share-based compensation

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

For the year ended December 31,			2016			2015
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 3,803	$ 559	$ 4,362	$ 1,563	$ 744	$ 2,307

15. Finance costs

For the year ended December 31,		2016		2015
Interest expense on senior secured notes	$	28,855	$	26,030
Interest expense on shareholder's loan		136		-
Amortization of financing transaction costs and discount		10,046		14,267
Redemption/yield maintenance premium		19,055		6,245
Financing related costs		3,170		232
Other interest expense/(recovery)		298		(286)
Unwinding of discounts on provisions		960		1,055
	$	62,520	$	47,543

16. Loss per share

The weighted average number for basic Class "A" common shares for the years 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 years presented.

For the years ended December 31,	2016	2015
Basic and Diluted – Class "A" common shares	4,499,936,583	3,977,269,532

17. Financial instruments

17.1 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:

		2016		2015
Working capital deficiency	$	319,304	$	286,121
Shareholders' equity		607,455		604,098
	$	926,759	$	890,219

The working capital deficiency of $319.3 million at December 31, 2016, includes the $268.5 million current portion of the Notes. There is no change in the Company's objectives and strategies of capital management for the years ended December 31, 2016.

17.2 Categories of financial instruments

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash, restricted cash and cash equivalents, prepaid expenses, deposits and trade and other receivables	$ 21,343	$ 21,343	$ 31,306	$ 31,306
Financial liabilities				
Trade and accrued liabilities	71,526	71,526	47,611	47,611
Share purchase warrants (Note 13.2)	-	-	3	3
Senior Notes	268,540	268,540	266,321	228,025

17.3 Fair value of financial instruments

The fair value of cash, restricted cash and cash equivalents, prepaid expenses, deposits, trade and other receivables and trade and accrued liabilities approximate their carrying values due to their short term maturity.

The fair value of share purchase warrants and long term debt have been assessed on a level 2 fair value measurement.

Level 1 fair value measurements are based on quoted prices in active markets. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices. Level 3 fair value measurements are based on unobservable information.

17.4 Financial risk management

Financial risks include market risk (including currency risk, interest rate risk, and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company does not use any derivative financial instruments to mitigate these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

17.5 Market risk

Market risk is the risk that changes in market prices will affect the Company's net loss. The objective of market risk management is to manage and control market risk exposures within acceptable limits. There have been no changes over the prior year to the Company's objectives, policies or processes to manage market risks.

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum are impacted by world economic events that dictate the levels of supply and demand. The Company has not attempted to mitigate commodity price risk through the use of various financial derivative or physical delivery sales contracts.

17.6 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 year ended December 31, 2016.

If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at December 31, 2016 would have been impacted by Nil and the carrying value of the long term debt at December 31, 2016 would have been impacted by $2.6 million. At December 31, 2016, the Company held approximately USD $0.2 million or $0.3 million of cash, using the December 31, 2016 exchange rate of 1.3427, as cash, restricted cash and cash equivalents in the Company's US bank account.

17.6 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 and restricted cash held at December 31, 2015 would have been impacted by approximately $0.1 million. At December 31, 2016, the Company held, after recent equity closings, approximately HKD$70.5 million or $12.1 million using the December 31, 2016 exchange rate of 5.7748, as cash in the Company's HKD bank account.

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

		2016	2015
Unrealized foreign exchange loss /(gain) on translation of:			
U.S. denominated senior secured notes	$	(7,826)	42,004
Foreign currency denominated cash balances		484	(7,506)
Foreign currency denominated accounts payable balances		183	(24)
		(7,159)	34,474
Realized foreign exchange loss		317	1,832
Total foreign exchange (gains)/ losses	$	(6,842)	36,306

17.7 Interest rate risk management

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2016, the Company does not have any floating rate debt.

The Company's cash and cash equivalents consists of cash held in bank accounts that earn interest at varying interest rates. The Company's restricted cash and cash equivalents consists of cash held in a treasury note within a restricted escrow account. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values or result in material interest rate risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. For the year ended December 31, 2016, the interest rate earned on cash was between 0.1% and 1.55%.

17.8 Credit risk management

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash, deposits and receivables and GST receivables. As at December 31, 2016, the Company's receivables consisted of 6% from Goods and Services Tax receivable, 41% joint interest billing receivable and 53% from other receivables (December 31, 2015 – 45% from Goods and Services Tax receivable, 39% from joint interest billing receivable and 16% from other receivables).

The Company's unrestricted cash as at December 31, 2016, is held in accounts with third party financial institutions and consists of invested cash and cash in the Company's operating accounts.

At December 31, 2016, there was no allowance for doubtful accounts receivable and the Company wrote off $0.1 million of receivables (December 31, 2015 - $Nil). The Company considers any amounts outstanding in excess of 30 days past due.

17.9 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 December 31, 2016, the Company had negative working capital of $319.3 million and an accumulated deficit of $707.1 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.

17.9 Liquidity risk management (continued)

The timing of cash outflows (excluding interest) relating to financial liabilities as at December 31, 2016, are as follows:

	Total	Less than 1 year	1-2 years
Trade and accrued liabilities	$ 71,526	$ 71,526	$ -
Debt[1]	268,540	268,540	-
	$ 340,066	$ 340,066	$ -

1. Principal amount of Notes based on the year end exchange rate of $1 US = 1.3427 CDN

18. Related party transactions

18.1 Trading transactions

The Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company (Note 13), and he has also loaned the Company funds on an unsecured basis.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan 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, can be drawn up to HK$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). As at December 31, 2016, both the Loan and Second loan balances were Nil.

18.2 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:

For the year ended December 31,	2016	2015
Directors' fees[1]	$ 695	$ 571
Salaries and allowances	2,644	3,050
Share-based compensation	3,808	878
	$ 7,147	$ 4,499

1. For the year ended December 31, 2016, this number reflects accrued fees of $0.1 million. Refer to the appendix A2 for additional director fees disclosure.

19. Operating lease arrangements

Payments recognised as an expense

For the year ended December 31,	2016	2015
Minimum lease payments	$ 2,005	$ 2,231

20. Commitments and contingencies

As at December 31, 2016, the Company's commitments are as follows:

		Total	2017	2018	2019	2020	2021	Thereafter
Repayment of long-term debt[1]	$	268,540	268,540	-	-	-	-	-
Interest payments on long-term debt[2]		33,299	33,299	-	-	-	-	-
Redemption premium[3]		19,598	19,598	-	-	-	-	-
Drilling, other equipment and contracts		3,550	3,456	94	-	-	-	-
Lease rentals[4]		9,254	1,421	1,402	1,414	1,414	1,414	2,189
Office leases		6,118	2,893	2,580	645	-	-	-
	$	340,359	329,207	4,076	2,059	1,414	1,414	2,189

1. Principal amount of Notes based on the year exchange rate of $1US=1.3427 CDN and a maturity date of August 1, 2017.
2. Based on 10% per annum and a maturity date of August 1, 2017, at the year exchange rate of $1US=1.3427 CDN.
3. The redemption premium is based on the maximum premium paid if the Notes mature on August 1, 2017. This premium (Yield Maintenance Premium) percentage is 7.298% of the aggregate principal amount of the Notes outstanding on August 1, 2017. Using the year exchange rate of $1US=1.3427 CDN this premium amounts to $19,568. At December 31, 2016, the Company had the option to redeem the Notes at 2.333% of the aggregate principal amount of the Notes outstanding which amounts to $6,265 using the year end exchange rate. The Company can redeem the Notes at any time up to the August 1, 2017 maturity date, following the optional redemption schedule set out in the Notes indenture.
4. The Company has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require 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 consolidated financial statements for the year ended December 31, 2016 as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance.

21. Supplemental cash flow disclosures

Non-cash transactions

For the years ended December 31, 2016, and December 31, 2015, the Company had capitalized general and administrative costs including share-based compensation and finance costs (Notes 7 and 8).

21. Supplemental cash flow disclosures (continued)

Supplemental cash flow disclosures

For the year ended December 31,		2016		2015
Cash provided by (used in):				
Trade and other receivables	$	(401)	$	(340)
Prepaid expenses and deposits		3,066		(2,276)
Trade and other payables		20,745		16,363
	$	23,410	$	13,747
Changes in non-cash working capital relating to:				
Operating activities				
Trade and other receivables	$	(1,077)	$	(214)
Prepaid expenses and deposits		3,066		(2,276)
Trade and other payables		8,165		5,204
	$	10,154	$	2,714
Investing activities				
Property, plant and equipment		10,486		9,151
	$	10,486	$	9,151
Financing activities				
Share issue costs and finance costs	$	2,770	$	1,882
	$	23,410	$	13,747

22. Subsequent events

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 HK$0.262 per share (approximately CDN$0.045 per common share), for gross proceeds of HK$15.7 million (approximately CDN$2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HK$117,900 (approximately CDN$0.02 million), had been incurred in relation to the Closing.

On February 28, 2017 the Company ceased capitalization of its West Ells Phase I project (“the Project”). As of this date the Project has met the following criteria:

- The formation has been steaming for more than one year.
- All of the 8 well pairs have been in SAGD production for a certain period of time.
- The plant has been operating in the manner intended by management.
- The project is now running at approximately 60% of its nameplate capacity.

Hence, the Company will cease capitalization of the petroleum revenue, royalties, diluent costs, transportation costs and operating expenses in relation to the Project and will commence recording depletion of the Project effective March 1, 2017. These amounts will therefore be included in the Statement of Operations and Comprehensive Loss.

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 HK$0.283 per share (approximately CDN$0.050 per common share), for gross proceeds of HK$70 million (approximately CDN$12.1 million).

On January 31, 2017, the Company updated the status of the Agreement, and on March 20, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement ("NEA") with the bondholders. All the terns in relation to the Agreements has been outlined in note 2.

23. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 21, 2017.

Appendix to the consolidated financial statements (Unaudited)

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in these 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 and Boxian.

		2016		2015
Non-current assets				
Property, plant and equipment	$	684,410	$	650,929
Exploration and evaluation assets		291,716		290,945
Amounts due from subsidiary		4,657		3,650
		980,783		945,524
Current assets				
Trade and other receivables		2,654		2,253
Prepaid expenses and deposits		4,956		8,119
Cash		13,066		5,559
Restricted cash and cash equivalents		-		14,389
		20,676		30,320
Current liabilities				
Trade and other payables		71,509		47,575
Provisions		581		3,492
Share purchase warrants		-		3
Amount due to subsidiary		2,611		2,692
Senior Notes		268,540		266,321
		343,241		320,083
Net current assets		(322,565)		(289,763)
Total assets less current liabilities		658,218		655,761
Non-current liabilities				
Provisions		49,488		51,656
		49,488		51,656
Net assets	$	608,730	$	604,105
Capital and reserves				
Share capital	$	1,247,302	$	1,174,987
Reserve for share-based compensation		67,262		62,910
Deficit		(705,834)		(633,792)
	$	608,730	$	604,105

A2. Directors' emoluments and other staff costs

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

For the year ended December 31,	2016	2015
Directors' emoluments		
Directors' fees	$ 695	$ 571
Salaries and allowances	2,371	1,812
Share-based compensation	3,775	668
	6,841	3,051
Other staff costs		
Salaries and other benefits	6,184	13,077
Contribution to retirement benefit scheme	237	291
Share-based compensation	587	1,638
	7,008	15,006
Total staff costs, including directors' emoluments	13,849	18,057
Less: staff costs capitalized to qualifying assets	3,048	5,748
	$ 10,801	$ 12,309

Details of the Directors' emoluments are as follows:

A3. Directors' emoluments

For the twelve months ended December 31, 2016						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation	Performance related incentive payments	Total
Kwok Ping Sun	$ 84	$ 152	$ -	$ 1,059	$ -	$ 1,295
Michael Hibberd	80	-	-	1,171	-	1,251
Hong Luo	53	517	-	479	-	1,049
Qi Jiang	60	1,187	-	536	-	1,783
Qiping Men	29	515	-	476	-	1,020
Tseung Hok Ming	26	-	-	(26)	-	-
Jianzong Chen	40	-	-	15	-	55
Jimmy Hu	22	-	-	-	-	22
Zhefei Song	30	-	-	-	-	30
Robert Herdman	38	-	-	(26)	-	12
Gerald Stevenson	74	-	-	23	-	97
Raymond Fong	66	-	-	23	-	89
Yi He	31	-	-	15	-	46
Joanne Yan	33	-	-	15	-	48
Xijuan Jiang	29	-	-	15	-	44
	$ 695	$ 2,371	$ -	$ 3,775	$ -	$ 6,841

1. Mr. Men commenced as Executive Director on June 30, 2016.
2. Mr. He commenced as a non-executive director on June 30, 2016.
3. Mrs. Yan commenced as a non-executive director on June 30, 2016.
4. Mrs. Jiang commenced as a non-executive director on June 30, 2016
5. Mr. Tseung ceased as a director on June 30, 2016.
6. Mr. Hu ceased as a director on June 30, 2016.
7. Mr. Herdman ceased as director on June 30, 2016.
8. Mr. Song ceased as director on June 30, 2016.

A3. Directors' emoluments (continued)

For the year ended December 31, 2015						
Name of Director	Directors' fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based compensation[8]	Performance related incentive payments	Total
Michael Hibberd[1]	$ 88	$ 279	$ -	$ 299	$ -	$ 666
Tseung Hok Ming	58	-	-	23	-	81
Tingan Liu[2]	(140)	-	-	-	-	(140)
Haotian Li[3]	38	-	-	(2)	-	36
Raymond Fong	71	-	-	23	-	94
Robert Herdman	81	-	-	23	-	104
Gerald Stevenson	79	-	-	23	-	102
Jimmy Hu[4]	47	-	-	-	-	47
Zhefei Song	66	-	-	-	-	66
Hong Luo[5]	61	227	-	64	-	352
Qi Jiang	66	1,306	-	215	-	1,587
Kwok Ping Sun[6]	47	-	-	-	-	47
Jianzong Chen[7]	9	-	-	-	-	9
	$ 571	$ 1,812	$ -	$ 668	$ -	$ 3,051

1. Mr. Hibberd commenced as a non-executive chairman on June 28, 2015.
2. Upon receipt of a waiver from Mr. Liu, all prior period director entitlement accruals were reversed. Mr. Liu resigned as a director on June 24, 2015.
3. Mr. Li was a director until the time of his resignation on October 22, 2015.
4. Mr. Hu commenced as a non-executive director on June 28, 2015.
5. Mr. Luo commenced as Chief Executive Officer and an executive director on July 17, 2015.
6. Mr. Sun commenced as a non-executive director on May 27, 2015, and he commenced as executive chairman on June 28, 2015.
7. Mr. Chen commenced as a non-executive director on October 22, 2015.
8. For the year ended December 31, 2015, no options have been granted to Directors.

A4. Five highest paid individuals

The five highest paid individuals were within the following emolument bands:

For the year ended December 31,	2016	2015
HK$ nil to HK$1,000,000	-	-
HK$1,000,001 to HK$1,500,000	-	-
HK$1,500,001 to HK$2,000,000	-	-
HK$2,000,001 to HK$2,500,000	-	2
HK$2,500,001 to HK$3,000,000	-	-
HK$3,000,001 to HK$3,500,000	-	-
HK$3,500,001 to HK$4,000,000	-	-
HK$4,000,001 to HK$4,500,000	-	2
HK$4,500,001 to HK$5,000,000	-	-
HK$5,000,001 to HK$5,500,000	-	-
HK$5,500,001 to HK$6,000,000	1	-
HK$6,000,001 to HK$6,500,000	1	-
HK$6,500,001 to HK$7,000,000	1	-
>HK$7,000,000	2	1

For the year ended December 31, 2016, the conversion factor used in the above table is 1C$ = 5.86 HK$ (year ended December 31, 2015, 1C$ = 6.07 HK$)

The five highest paid individuals includes five directors of the Company and two key management executives of the Company for the year ended December 31, 2016 (for the year ended December 31, 2015 there were two directors and three key management executives). Since the directors' emoluments are disclosed above, the compensation of the two key management executives for the Company is as follows:

A4. Five highest paid individuals (continued)

For the year ended December 31,		2016		2015
Salaries and other benefits	$	273	$	1,233
Contributions to retirement benefits scheme		2		5
Share-based compensation		33		210
	$	308	$	1,488

A5. Senior management remuneration by band

The emoluments fell within the following bands:

For the year ended December 31,	2016	2015
HK$ nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	1	-
HK$1,500,001 to HK$2,000,000	-	1
HK$2,000,001 to HK$2,500,000	-	2
HK$2,500,001 to HK$3,000,000	-	1
HK$3,000,001 to HK$3,500,000	-	-
HK$3,500,001 to HK$4,000,000	-	-
HK$4,000,001 to HK$4,500,000	-	1
HK$4,500,001 to HK$5,000,000	-	-
HK$5,000,001 to HK$5,500,000	-	-
HK$5,500,001 to HK$6,000,000	1	-
HK$6,000,001 to HK$6,500,000	1	-
HK$6,500,001 to HK$7,000,000	-	-
>HK$7,000,000	2	1

For the year ended December 31, 2016, the conversion factor used in the above table is 1C$ = 5.86 HK$ (year ended December 31, 2015, 1C$ = 6.07 HK$)

The table above includes the remuneration for the executive directors and executive officers of the Company. As at December 31, 2016, $0.1 million (2015 - $0.1 million) was the total payable to senior management and this was included in trade and accrued liabilities. Two executive directors ceased to be executive directors on June 28, 2015.