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阳光油砂

SUNSHINE OILSANDS LTD.

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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)

SUPPLEMENTARY ANNOUNCEMENT IN RELATION TO APPOINTMENT OF AUDITORS

Reference is made to the announcement (the “**Announcement**”) of Sunshine Oilsands Ltd. (the “**Corporation**” or “**Sunshine**”) (**HKEX: 2012**) dated September 22, 2020 in relation to, among others, the appointment of Prism CPA Limited (“**Prism**”) as auditors of the Corporation. The Board wishes to supplement the following information.

I. The Audit Committee's role and involvement in appointing Prism as the Corporation's auditor

The Audit Committee is responsible for the selection of auditor for the Corporation after assessing the potential candidates’ services, industry experience, client portfolio and experience of its audit professional. The Audit Committee would also enquire the potential candidates with regards to their independence and audit strategies.

The following factors are the Audit Committee's assessment and the basis of forming its view on recommending Prism as auditors of the Corporation: -

- a) Competence - As the Audit Committee is made aware, Prism is a professional accounting firm registered under the Professional Accountants Ordinance (PAO) with the Hong Kong Institute of Certified Public Accountants (HKICPA). Prism has considerable experience in auditing companies listed in both Main Board / GEM Board in Hong Kong. It has also been auditors of various multi-national companies with overseas business of which their financial statements are prepared under International Financial Reporting Standards (IFRS).

**For identification purposes only*

In addition, Prism is currently in collaboration with its alliance firms in Canada for Canadian private company engagements, which involves: i) it being the auditor of the China / Hong Kong subsidiaries companies, branch offices of the Canadian companies of which its alliance firms in Canada is the group auditor; and ii) it being the auditor for particular items in the financial statements for companies in Canada of which Prism's alliance firms in Canada is the main auditor. Prism believes that it can therefore leverage on its Canadian experience and alliance network on the Corporation's engagement.

It is considered that the abovementioned collaboration provides substantial experience and exposures to Canadian-based business because ii) provides direct experience for Prism on Canadian companies. Whereas i) provides indirect experience for Prism on Canadian business groups because Prism's clients, i.e. the subsidiary companies of the Canadian business groups, essentially take up and follow closely on management policies, internal control design framework, and accounting treatment of financial statement items of their Canadian parent companies/headquarters. Therefore when Prism performs the audit for its clients, they are performing the work (e.g. walking through business processes, testing internal control measures, and examining accounting numbers and treatment) as if they are auditing the Canadian companies themselves. In addition, being the component auditor for Canadian group companies, it has to adhere to the group audit plan as laid down by the group auditor and ensure compliance with regulations and standards that its clients' Canadian parent companies are subject to. More importantly, the audit professionals of Prism have previously been engaged in reputable international audit firms on Canadian-based corporate audit engagements which involves collaborations of offices in different countries with that in Canada. These experiences were brought into Prism as they join the firm.

Moreover, Prism has been the auditor of the parent corporation of a company engaged in the mining industry and is listed in Canada. This is considered relevant experience because oil sands companies are also classified in the broader sense, as part of the mining industry. Similar to Sunshine, mining companies do have reserves taking up a material portion of their assets. Independent assessment on the reserves by third party valuation companies e.g. GLJ Petroleum Consultants has to be performed at least on an annual basis for the purpose of updating the reserves valuation and as well for its annual impairment assessment. Again, the audit professional of Prism possesses auditing experience in oil and gas and mining companies as they previously worked in other international auditing firms.

Given the abovementioned factors, the Audit Committee believes that Prism possess the relevant experience and exposures and should therefore be a competent auditor for the Corporation.

- b) Independence – Both the Corporation and Prism have confirmed that they are independent of each other. The Corporation has not previously engaged Prism or any of its members for any services (e.g. audit/assurance, consulting, etc.), employments, etc.

- c) **Objectivity and Reasonableness of the Audit Process** – The Audit Committee has a detailed discussion with Prism prior to its appointment. Prism has obtained a solid understanding of the Corporation’s operations and strategies, and the experience that the Corporation has had with the previous auditor, and the background of the auditor opinion for the year ended December 31, 2019. Prism has also explained to the audit committee about its thoughts of the audit process, key audit matters, expectation on audit evidences and logistics plans. The Audit Committee believes that the presentation of Prism seems objective, effective and professional, and that Prism will have sufficient resources to handle the engagement and to ensure timely completion of the audit and publication of the financial results.

II. The Audit Committee's assessment with basis on remuneration and terms of engagement of the auditors

The Audit Committee has compared the proposed auditor remuneration by Prism with audit fee of the Corporation’s previous auditors and also considered the amount of work to be performed by Prism as the new auditor. Therefore, the Audit Committee believes that the proposed remuneration is reasonable and comparable to the Corporation’s previous audit fees.

III. Factors considered by the Audit Committee when engaging Prism as its new auditor

Taken into account a) the factors that have been considered by the Audit Committee in I & II above in assessing Prism’s suitability to be the auditor of the Corporation; and b) that the Corporation has exhausted much time and effort on searching for potential auditors and the new auditor will need time to get familiarized with the Corporation and its business operations, typically some interim audit work will be carried out before year end, it is considered that it is in the best interest for the Corporation to decide on the appointment of new auditor as early as possible.

IV. The procedures and measures taken or to be taken by the Corporation in its FY2020 annual audit to avoid similar audit modifications expressed in FY2019

To avoid similar audit modifications expressed in FY2019, the Corporation has detailed discussions with Prism on the plan for 2020 audit. The Corporation has discussed:

- 1) The whole process that the Corporation has gone through during the 2019 audit. That includes what the Corporation’s 2019 auditor Zhonghui Anda CPA Limited (“Zhonghui”) has requested and obtained, what questions that they have asked and key points that have been raised through the discussions between Zhonghui and the Corporation, and the Corporation’s response, etc.

- a comprehensive summary of which was also covered in P.43-44 of our 2019 Annual Report.

Prism agreed that in their upcoming audit work, they will need to obtain the 2020 reserve report from GLJ Petroleum Consultants, they will also participate in the Board Reserves Committee meeting with experts from GLJ present, in case they have any queries. They will also review the Corporation's impairment assessment on the PP&E and E&E, of which the recoverable value will be obtained from GLJ's report, and the carrying value is simply the value recorded in the financial statements of the Corporation. They noted that if audit adjustment is required, they will discuss with the Corporation management the methodology of arriving at the adjustment and recommend to management to take up such adjustment. If there is no need for adjustment, or any recommended adjustment is taken up fully by the Corporation, there should not be any audit modification on this item.

- 2) Regarding the Going Concern issue, the Corporation has discussed with Prism that it has undertaken a number of measures to improve its liquidity and financial position, and to remediate its net current liabilities position:
 - a) Per the Corporation's announcement dated April 24, 2020, the Corporation has signed the Forbearance Reinstatement and Amending Agreement, under which the maturity of the Senior Note was extended to August 31, 2021. With the extension of the Senior Note, a substantial portion of the liabilities became non-current (balance as at March 31, 2020: CAD281.8m) and have eased the liquidity pressure of the Corporation. Also, the interest rate for rolling over the Senior Note was set at 10% which is substantially lower than the all-in interest rate of approximately 19.8% when the Senior Note was issued. This also helped to lower the interest expense burden of the Corporation. The Corporation once again demonstrated its ability to extend its Senior Note liability with the Noteholders as it falls due.
 - b) On April 1, 2020, the Corporation also announced the issuance of a HKD 72,000,000 2-year fixed rate convertible bond to a company wholly owned and controlled by the Chairman of the Board, Mr. Kwok Ping Sun. The resolution of the convertible bond issuance was subsequently passed through in the Special General Meeting on May 25, 2020. The issuance has increased the liquidity of the Corporation especially during times of low oil price and production activity.
 - c) In addition, the Corporation has been having ongoing negotiation with various private funds and institutional investors concerning the possibilities of obtaining loan facilities and placing of bonds, equities or hybrid of both. The Corporation will consider different financing options as and when necessary for its business development.
 - d) The Corporation has also been actively in touch with the market for opportunities to sell some of its spare idle equipment or spare parts, some of which may also be usable by companies in the industrial sector other than oil exploration. An asset sale transaction was completed in August 2020. Any of the asset sale is expected to enhance the liquidity of the Corporation and meet operational cashflow needs.

- e) The Corporation is also actively seeking to reduce cost of operations and minimize capital expenditures. For example, the Corporation is exploring the possibility of transporting oil product through existing pipelines of nearby projects. It is expected that if the Corporation can transport oil product by pipeline instead of by trucks, the transportation cost, which accounts for a substantial portion of the operating costs, can be significantly lowered.
- f) The Corporation will continue to open up businesses which it expects to be more profitable. In 2019, the Corporation has announced its plan to establish multifunctional petrol stations in Hebei province, China. Since then, the Corporation has been actively engaged in planning work including procurement of necessary licenses and local government approval, survey and inspection of prospective locations, design, etc. It is expected that by early-mid 2021, pilot petrol stations will be completed after which other stations can be constructed by replication of these station. The establishment of multi-functional Petrol Stations in China is expected to substantially increase the Corporation's revenue, profit and operating cashflow. Strengthened financial position will also facilitate the Corporation in obtaining financing from banks and financial institutions.
- g) As the Corporation has maintained low level of operational activities due to COVID-19 and the extremely weak international oil market, Prism will have to balance out the factors affecting the Corporation's going concern assumption. They may need more information by the time of the annual audit e.g. the development of COVID-19 in North America, international oil prices, the Corporation's strategic plan and budget for 2021, potential source of financing, etc.

V. The Corporation's view as to whether there would be any audit modifications concerning its FY2020 annual audit

Based on the above discussions, it is expected that the audit modification in relation to the impairment of PP&E and E&E could be removed, whereas the audit modification regarding the Going Concern assumption will depend on certain things that the Board will have to assess nearer to the time, but the Corporation will exert its greatest effort to assist the work of Prism and try its best to remove the audit qualification with Prism in the 2020 audit.

By Order of the Board of Sunshine Oilsands Ltd.
Kwok Ping Sun
Executive Chairman

Hong Kong, November 30, 2020
Calgary, November 30, 2020

As at the date of this announcement, the Board consists of Mr. Kwok Ping Sun and Ms. Gloria Pui Yun Ho as executive directors; Mr. Michael John Hibberd, Ms. Linna Liu and Ms. Xijuan Jiang as non-executive directors; and Mr. Yi He, Mr. Alfa Li and Mr. Guangzhong Xing as independent non-executive directors.

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 is focused on the development of its significant holdings of oil sands leases in the Athabasca oil sands region. The Corporation owns interests in approximately one million acres of oil sands and petroleum and natural gas leases in the Athabasca region of Alberta. The Corporation currently focus on the West Ells project area. West Ells Phase I has a designed production capacity of 5,000 barrels per day.

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FORWARD LOOKING INFORMATION

This announcement contains forward-looking information relating to, among other things, 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 the Corporation’s experience, current beliefs, assumptions, information and perception of historical trends available to the Corporation, 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 the Corporation 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. The Corporation 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 of 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, 2019 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 on the Corporation's website at www.sunshineoilsands.com.