

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

(Stock Code: 2012)

Second Quarter 2012 Unaudited Financial Results

Sunshine Oilsands Ltd. (the "Corporation" or "Sunshine") is pleased to announce its unaudited interim financial results for the six month period ended June 30, 2012. Please see the attached announcement for further information.

By Order of the Board of Sunshine Oilsands Ltd.
Michael John Hibberd
Co-Chairman
and
Songning Shen
Co-Chairman

Hong Kong, August 14, 2012

As at the date of this announcement, the Board consists of Mr. Michael John Hibberd and Mr. Songning Shen as executive directors, Mr. Hok Ming Tseung, Mr. Tingan Liu, Mr. Haotian Li and Mr. Gregory George Turnbull as non-executive directors and Mr. Raymond Fong, Mr. Wazir Chand Seth, Mr. Robert John Herdman and Mr. Gerald Franklin Stevenson as independent non-executive directors.

****For identification purposes only***

Sunshine Oilsands Ltd.

Second Quarter 2012 Unaudited Financial Results

HONG KONG - Sunshine (**HK: 2012**) today announced its unaudited financial results for the three and six month periods ended June 30, 2012. All figures are in Canadian dollars unless otherwise stated.

Highlights

In compliance with National Instrument 51-101 of the Canadian securities administrators, the Corporation announced an update to its reserves and resources evaluation for its reserves and Best Estimate Contingent Resources as at May 31, 2012. Highlights of the May 31, 2012 reports, as independently assessed by GLJ Petroleum Consultants Ltd. and DeGolyer and MacNaughton Canada Limited, include the following:

- The Corporation increased Total Petroleum Initially In Place ("PIIP") recognition to 71 billion barrels, approximately a 26 billion barrel increase;
- Clastics Best Estimate Contingent Resource recognition increased by 1.2 billion barrels to 3.6 billion barrels primarily due to the Corporation's drilling program located at its core areas of Harper and Opportunity and from additions and drilling at Pelican Lake; and
- Carbonates Best Estimate Contingent Resource recognition increased in the Corporation's core areas of Goffer, Muskwa and Portage, adding over 700 million barrels, for a total of 1.3 billion barrels.

Operational Update - Second Quarter of 2012:

Sunshine is a major holder and developer of oil sands resources with approximately 71 billion barrels of total PIIP, targeting 200,000 barrels per day of production from the Corporation's first three project areas: West Ells, Thickwood and Legend Lake.

Sunshine has submitted to the Alberta regulatory authority, the Energy Resources Conservation Board ("ERCB"), three 10,000 barrels per day project applications for commercial production from these first three project areas. The West Ells 10,000 barrels per day project has been approved and construction is in progress. The Thickwood and Legend Lake 10,000 barrels per day projects are progressing through the regulatory process, with successful completion of the first of two rounds of Supplemental Information Requests ("SIR"). ERCB approvals for the Thickwood and Legend Lake projects are expected to be on schedule for Q2 2013.

West Ells Development

During the first six months of 2012, the Corporation commenced construction activities at its first major project at West Ells. To support West Ells development, the Corporation jointly completed the construction of a 50 kilometre high grade road with an industry player. To date, the Corporation spent \$22.9 million to construct the access road, which is under budget by approximately 16.4%. The West Ells road was completed for light haul in June 2012. The road will be available for heavy haul to transport vessels and modules by September 2012. In addition, the Corporation also constructed 1.6 kilometres of high grade spur road to its West Ells facility site.

The Corporation's West Ells civil work resumed in mid-June after spring break-up and is approximately 40% complete for the well pad, the corridor and the borrow pits. The Central Processor Facility ("CPF") site has been cleared and stripping and fill will begin later this summer. West Ells Phase One has an initial production rate of 5,000 barrels per day, which will be followed by an approved expansion for planned production capacity to 10,000 barrels per day.

As at June 30, 2012, \$69.8 million has been incurred for West Ells equipment, engineering, construction, civil works, drilling and completions and other project related expenditures of the total estimated budget of \$461 million. The Project is currently on schedule and on budget for completion. The facility Front End Engineering and Design ("FEED") is 100% complete, with Detailed Engineering 48% complete. For capital commitments, 100% of the long lead equipment has been ordered and approximately 75% of the secondary long lead equipment has been procured. No major delays have been encountered to date. First steam for Phase One is expected mid-2013.

Thickwood and Legend Lake

In addition to the progress made on the 10,000 barrel per day Project application approval, the Corporation has initiated the FEED for Thickwood. In addition, detailed baseline environmental data collection has been initiated and is expected to be completed by the end of 2012. This work provides information required for Project applications larger than 2,000 m³ per day (12,000 barrels per day) in anticipation of future development plans at Thickwood, Legend Lake and West Ells.

Cold flow assets

The Corporation continues with the exploration and development of its Muskwa heavy oil assets. As at June 30, 2012, five pads with 39 development wells have produced a cumulative total of 233,808 barrels. Muskwa cumulative production for the first six months of 2012 is 116,340 barrels, representing an average of 639 barrels per day. The Corporation continued production optimization activities in the Muskwa field by implementing new technologies and techniques for enhancing production, sand clean out and other types of wellbore stimulations. The Corporation also commenced construction of its planned pad extension to accommodate the drilling of up to seven additional wells, which are expected to be drilled later in 2012. In June, the Corporation received regulatory approval to install electric heaters on two horizontal wellbores at its Muskwa operations. Field work commenced this summer and is scheduled to be completed in third quarter of 2012. Muskwa remains in the resource definition stage for the Corporation's financial reporting purposes. As a result, the Corporation capitalizes all costs incurred to date including operating costs net of revenues.

The Board of Directors of the Corporation is pleased to announce the results of the Corporation and its wholly-owned subsidiaries, Fern Energy Ltd. ("Fern") and Sunshine Oilsands (Hong Kong) Ltd. ("Sunshine Hong Kong") for the three and six month periods ended June 30, 2012 together with comparative figures for the corresponding period in 2011 as follows:

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Other income				
Foreign exchange gain	\$ 2,056,449	\$ -	\$ 9,036,044	\$ -
Interest income	935,944	516,254	1,017,432	942,127
	2,992,393	516,254	10,053,476	942,127
Salaries, consulting and benefits	3,416,225	1,247,654	5,868,403	2,380,957
Rent	237,323	95,567	498,803	189,818
Legal and audit	91,502	445,480	302,735	666,017
Depreciation	65,608	46,479	125,982	83,841
Share-based payment expense	2,515,550	1,780,097	4,733,533	3,331,133
Expense portion of IPO costs	44,460	-	16,257,878	-
Fair value adjustment on warrants	-	(2,255,400)	-	34,528,863
Finance costs	66,201	6,839,668	17,164,370	12,162,677
Other	1,228,905	1,317,544	2,105,882	1,785,961
	7,665,774	9,517,089	47,057,586	55,129,267
Loss before income taxes	4,673,381	9,000,835	37,004,110	54,187,140
Income tax (recovery)/expense	-	(519,792)	-	502,828
Net loss and comprehensive loss for the period attributable to equity holders of the Corporation	\$ 4,673,381	\$ 8,481,043	\$ 37,004,110	\$ 54,689,968
Loss per share				
Basic and diluted	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04

Condensed Interim Consolidated Statements of Financial Position

	June 30, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 419,548,234	\$ 84,957,414
Trade and other receivables	1,846,249	3,582,953
Prepaid expenses and deposits	1,290,312	797,718
	422,684,795	89,338,085
Non-Current Assets		
Exploration and evaluation	532,080,211	382,277,258
Property and equipment	861,778	718,785
Other assets	-	3,379,627
	532,941,989	386,375,670
	\$ 955,626,784	\$ 475,713,755
Liabilities and Shareholders' Equity		
Current Liabilities		
Trade and other payables	\$ 38,416,166	\$ 33,365,438
Provisions for decommissioning obligation	1,213,600	68,365
Fair value of warrants	-	63,000,304
	39,629,766	96,434,107
Non-Current Liabilities		
Share repurchase obligation	-	224,362,115
Provisions for decommissioning obligation	16,018,164	6,331,883
	16,018,164	230,693,998
	55,647,930	327,128,105
Net current (liabilities)/assets	383,055,029	(7,096,022)
Total assets less current liabilities	915,997,018	379,279,648
Shareholders' Equity		
Share capital	1,006,269,331	219,173,885
Reserve for share based compensation	37,104,223	30,074,070
Deficit	(143,394,700)	(100,662,305)
	899,978,854	148,585,650
	\$ 955,626,784	\$ 475,713,755

Notes

1. Basis of preparation

These condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Board. The condensed interim consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK").

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, measured at fair value.

The condensed interim consolidated financial statements incorporate the financial statements of the Corporation and the Corporation's wholly owned subsidiaries, Fern, and Sunshine Hong Kong.

Control is achieved when the Corporation 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 condensed interim 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.

The condensed interim consolidated financial statements are presented in Canadian Dollars ("C\$"), which is the functional currency of the Corporation.

2. Segment Information

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

3. Trade Receivables

The Corporation's trade and accruals and other receivables mainly arise from oil sales and goods and services tax receivables due from government taxation authorities. These are analysed as follows:

	June 30, 2012	December 31, 2011
Trade	\$ 677,461	\$ 2,047,804
Accruals and other	855,650	12,164
Goods and Services Taxes receivable	313,138	1,522,985
	<u>\$ 1,846,249</u>	<u>\$ 3,582,953</u>

The Corporation 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 periods:

	June 30, 2012	December 31, 2011
0 - 30 days	\$ 211,938	\$ 1,259,911
31 - 60 days	465,523	787,893
61 - 90 days	-	-
	<u>\$ 677,461</u>	<u>\$ 2,047,804</u>

As at June 30, 2012, included in the Corporation's trade receivables were debtors with an aggregate carrying amount of \$465,523 (December 31, 2011 - \$787,893), which was past due as at the reporting date and for which the Corporation had not provided for impairment loss. The Corporation does not hold any collateral over these balances.

4. Trade Payables

Trade payables mainly represent payables to subcontractors for exploration and evaluation services. The Corporation has financial risk management policies in place to ensure that all payables are paid within pre-agreed credit terms. The following is an aged analysis of trade payables based on dates of invoices at the end of the reporting periods:

	June 30, 2012	December 31, 2011
Trade		
0 - 30 days	\$ 1,892,420	\$ 7,171,939
31 - 60 days	212,096	4,082,229
61 - 90 days	181,777	451,787
>91 days	428,363	245,548
	2,714,656	11,951,503
Accrued liabilities	35,701,510	21,413,935
	<u>\$ 38,416,166</u>	<u>\$ 33,365,438</u>

5. Income Taxes

Income tax recognised in the Statement of Operations

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tax expense comprises:				
Tax expense in respect of the current year	\$ -	\$ (785,358)	\$ -	\$ 133,993
Effect of changes in tax rates and laws	-	265,566	-	368,835
Total tax expense	<u>\$ -</u>	<u>\$ (519,792)</u>	<u>\$ -</u>	<u>\$ 502,828</u>

The Corporation and its subsidiary, Fern, in Canada are subject to Canadian federal and provincial tax for the estimated assessable profit at a rate of 25.0%. The Corporation had no assessable profit in Canada for the three and six month periods ended June 30, 2012.

The Corporation's subsidiary, Sunshine Hong Kong, in 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 Corporation had no assessable profit arising in or derived from Hong Kong for the three and six month periods ended June 30, 2012.

Deferred tax balances

	Opening Balance	Recognised in loss	Recognised in other comprehensive loss	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
June 30, 2012								
Temporary differences								
Exploration and evaluation	\$ (32,593,406)	\$ (5,023,088)	\$ -	\$ -	\$ -	\$ -	\$ (3,507,966)	\$ (41,124,460)
Property and equipment	(31,476)	(61,219)	-	-	-	-	-	(92,695)
Other financial liabilities	755,155	(34,395)	-	-	-	-	3,507,966	4,228,726
Share issue expenses	871,668	(1,368,916)	-	-	-	-	-	(497,248)
	<u>\$ (30,998,059)</u>	<u>\$ (6,487,618)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,485,677)</u>
Tax losses	30,998,059	6,487,618	-	-	-	-	-	37,485,677
Deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

5. Income Taxes (continued)

June 30, 2011	Opening Balance	Recognised in loss	Recognised in other comprehensive loss	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
Temporary differences								
Exploration and evaluation	\$ (15,458,127)	\$ (10,899,366)	\$ -	\$ -	\$ -	\$ -	\$ (439,001)	\$ (26,796,494)
Property and equipment	(4,093)	(32,457)	-	-	-	-	-	(36,550)
Other financial liabilities	498,289	(15,415)	-	-	-	-	321,225	804,099
Share issue expenses	1,895,725	(1,372,370)	-	134,507	-	-	-	657,862
	<u>\$ (13,068,206)</u>	<u>\$ (12,319,608)</u>	<u>\$ -</u>	<u>\$ 134,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (117,776)</u>	<u>\$ (25,371,083)</u>
Tax losses	12,176,944	11,267,771	-	-	-	-	-	23,444,715
Deferred tax assets (liabilities)	<u>\$ (891,262)</u>	<u>\$ (1,051,837)</u>	<u>\$ -</u>	<u>\$ 134,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (117,776)</u>	<u>\$ (1,926,368)</u>

The following estimated tax pools are available to the Corporation in Canada:

	June 30, 2012
Non-capital losses	\$ 158,425,000
Exploration and evaluation	331,318,000
Property and equipment	690,000
Share issue costs	33,799,000
	<u>\$ 524,232,000</u>

The unrecognised tax losses will begin expiring in 2027.

6. Dividends

The Corporation has not declared or paid any dividends in respect of the three and six month periods ended June 30, 2012 (December 31, 2011 - \$Nil).

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 "Corporation") for the three and six month periods ended June 30, 2012 is dated August 14, 2012. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the year ended December 31, 2011. All amounts and tabular amounts are stated in 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 Corporation hereby cautions investors about important factors that could cause the Corporation'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 Corporation'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 Corporation 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 certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made, and, the Corporation 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. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statement except as required by law.

Non-IFRS Financial Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as net bitumen revenue, operating earnings, cash flow from operations and cash operating netback. These financial measures are not defined by 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 Corporation may not be comparable to similar measures presented by other companies. The Corporation uses these non-IFRS measures to help evaluate its performance. Management considers net bitumen revenue, operating earnings and cash operating netback important measures as they indicate profitability relative to current commodity prices. Management uses cash flow from operations to measure the Corporation'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 provided by operating activities, as determined in accordance with IFRS, as an indication of the Corporation's performance. The non-IFRS operating earnings and cash operating netback measures are reconciled to net income, while cash flow from operations is reconciled to net cash provided by operating activities, as determined in accordance with IFRS, under the heading "Non-IFRS Measurements" below.

Overview

The Corporation is headquartered in Calgary, Alberta, Canada. Sunshine's principal operations are the exploration, development and production of its portfolio of oil sands leases. The Corporation's nine principal operating regions in the Athabasca area are at West Ells, Thickwood, Legend Lake, Harper, Muskwa, Pelican Lake, Opportunity, Goffer and Portage.

The Corporation is one of the largest holders of oil sands leases in the Athabasca oil sands region, with over 1,165,350 acres of oilsands leases (equal to approximately 7% of all granted leases in this area), and includes 7,936 acres of Petroleum and Natural Gas ("PNG") licenses. 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 169 billion barrels of estimated resources. The Canadian oil sands comprises the largest single source of supply of oil imported into the United States.

As at June 30, 2012, the Corporation had invested \$532.1 million in oilsands leases, drilling operations, project planning and regulatory application processing. As at June 30, 2012, the Corporation had \$419.5 million in cash and cash equivalents (term deposits) and no debt. The Corporation has raised approximately \$1.0 billion in equity proceeds, including the proceeds from its initial public offering ("IPO") in March 2012.

During the second quarter ended June 30, 2012, the Corporation had the following highlights. The mid-year reserves and resources have been independently evaluated and approved in compliance with National Instrument 51-101 showing substantial growth from past independent evaluation results dated November 30, 2011. The main highlights are summarized as follows:

- approximately 71 billion barrels of Petroleum Initially In Place ("PIIP");
- approximately 5 billion barrels of Best Estimate Contingent Resources, an increase of 1.9 billion barrels, with a low estimate of 2 billion barrels and high estimate of 11 billion barrels. Best Estimate aggregate pre-tax PV10% value is now \$6.9 billion, an increase of \$1.8 billion representing 36% growth;
- 80 million barrels of 1P (Proved) reserves with an aggregate pre-tax PV10% value of \$312 million, an increase of 78 million barrels;
- 445 million barrels of 2P (Proved plus Probable) reserves with an aggregate pre-tax PV10% value of \$918 million, an increase of 26 million barrels; and
- 603 million barrels of 3P (Proved plus Probable plus Possible) reserves with an aggregate pre-tax PV10% of \$1.6 billion, an increase of 42 million barrels.

The Corporation realized a significant increase in Total PIIP and Best Estimate Contingent Resource recognition in both the clastics and carbonates formations. Total PIIP recognition increased by approximately 26 billion barrels to 71 billion barrels. Clastics Best Estimate Contingent Resource recognition increased by 1.2 billion barrels to 3.6 billion barrels primarily due to the Corporation's drilling program located at its core areas of Harper and Opportunity and from additions and drilling at Pelican Lake. Carbonates Best Estimate Contingent Resource recognition increased in the Corporation's core areas of Goffer, Muskwa and Portage, adding over 700 million barrels, for a total of 1.3 billion barrels. The Corporation's reserves and resource reports, effective May 31, 2012, were independently prepared by DeGolyer and MacNaughton Canada Limited and GLJ Petroleum Consultants Ltd.

Operational Update - Second Quarter of 2012:

Sunshine is a major holder and developer of oil sands resources with approximately 71 billion barrels of total PIIP, targeting 200,000 barrels per day of production from the Corporation's first three project areas: West Ells, Thickwood and Legend Lake.

Sunshine has submitted to the Alberta regulatory authority, the Energy Resources Conservation Board ("ERCB"), three 10,000 barrels per day project applications for commercial production from these first three project areas. The West Ells 10,000 barrels per day project has been approved and construction is in progress.

The Thickwood and Legend Lake 10,000 barrels per day projects are progressing through the regulatory process, with successful completion of the first of two rounds of Supplemental Information Requests ("SIR"). ERCB approvals for the Thickwood and Legend Lake projects are expected to be on schedule for Q2 2013.

West Ells Development

During the first six months of 2012, the Corporation commenced construction activities at its first major project at West Ells. To support West Ells development, the Corporation jointly completed the construction of a 50 kilometre high grade road with an industry player. To date, the Corporation spent \$22.9 million to construct the access road, which is under budget by approximately 16.4%. The West Ells road was completed for light haul in June 2012. The road will be available for heavy haul to transport vessels and modules by September 2012. In addition, the Corporation also constructed 1.6 kilometres of high grade spur road to its West Ells facility site.

The Corporation's West Ells civil work resumed in mid-June after spring break-up and is approximately 40% complete for the well pad, the corridor and the borrow pits. The Central Processor Facility ("CPF") site has been cleared and stripping and fill will begin later this summer. West Ells Phase One has an initial production rate of 5,000 barrels per day, which will be followed by an approved expansion for planned production capacity to 10,000 barrels per day.

As at June 30, 2012, \$69.8 million has been incurred for West Ells equipment, engineering, construction, civil works, drilling and completions and other project related expenditures of the total estimated budget of \$461 million. The Project is currently on schedule and on budget for completion. The facility Front End Engineering and Design ("FEED") is 100% complete, with Detailed Engineering 48% complete. For capital commitments, 100% of the long lead equipment has been ordered and approximately 75% of the secondary long lead equipment has been procured. No major delays have been encountered to date. First steam for Phase One is expected mid-2013.

Thickwood and Legend Lake

In addition to the progress made on the 10,000 barrel per day Project application approval, the Corporation has initiated the FEED for Thickwood. In addition, detailed baseline environmental data collection has been initiated and is expected to be completed by the end of 2012. This work provides information required for Projects applications larger than 2,000 m³ per day (12,000 barrels per day) in anticipation of future development plans at Thickwood, Legend Lake and West Ells.

Cold flow assets

The Corporation continues with the exploration and development of its Muskwa heavy oil assets. As at June 30, 2012, five pads with 39 development wells have produced a cumulative total of 233,808 barrels. Muskwa cumulative production for the first six months of 2012 is 116,340 barrels, representing an average of 639 barrels per day. The Corporation continued production optimization activities in the Muskwa field by implementing new technologies and techniques for enhancing production, sand clean out and other types of wellbore stimulations. The Corporation also commenced construction of its planned pad extension to accommodate the drilling of up to seven additional wells, which are expected to be drilled later in 2012. In June, the Corporation received regulatory approval to install electric heaters on two horizontal wellbores at its Muskwa operations. Field work commenced this summer and is scheduled to be completed in third quarter of 2012. Muskwa remains in the resource definition stage for the Corporation's financial reporting purposes. As a result, the Corporation capitalizes all costs incurred to date including operating costs net of revenues.

Non-IFRS Measurements

The following table reconciles the non-IFRS measurements "Net loss for the period" to "Net loss excluding specific items", the nearest IFRS measures. Net loss excluding specific items is defined as net loss as reported, excluding the allocation of IPO costs, finance costs on share repurchase obligation and fair value adjustment on warrants included within finance costs. In addition, a reconciliation of the non-IFRS measurements "Cash used in operations" to "Net cash provided by operating activities" has been provided. Cash flow from operations excludes non-cash finance costs and allocation of IPO costs, interest income, depreciation, share-based payment expense and the net change in non-cash operating working capital, while the IFRS measurement "Net cash provided by operating activities" includes these items.

Operational and Financial Highlights

The following table summarizes selected operational and financial information of the Corporation for the periods presented:

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Financial Highlights				
Other income	\$ 2,992,393	\$ 516,254	\$ 10,053,476	\$ 942,127
Expensed portion of IPO costs	44,460	-	16,257,878	-
Fair value of warrants	-	(2,255,400)	-	34,528,863
Finance costs	66,201	6,839,668	17,164,370	12,162,677
Net loss	4,673,381	8,481,043	37,004,110	54,689,968
Basic and diluted loss per share	0.00	0.01	0.02	0.04
Expenditures on exploration and evaluation	89,948,846	62,407,530	132,244,912	106,033,374

The Corporation recognized a net loss for the three months ended June 30, 2012 of \$4.7 million compared to \$8.5 million for the same period in 2011. For the three month period ended June 30, 2012, the net loss was primarily attributable to general administration costs of \$5.0 million, which includes \$3.4 million for salaries, consulting and benefits and \$1.2 million of other costs for travel and related annual filing and printing costs, share-based payments of \$2.5 million offset by foreign exchange gains of \$2.1 million and interest income of \$0.9 million. For the same period in 2011, the net loss was attributable to \$6.8 million of finance costs related to the share repurchase obligation, \$3.1 million in general administration costs, which includes \$1.2 million for salaries, consulting and benefits and \$1.3 million of other costs for travel costs, \$1.8 million of share-based payments offset by \$2.3 million of a mark to market adjustment on warrants and \$0.5 million of interest income.

For the six month period ended June 30, 2012, the Corporation had a net loss of \$37.0 million compared to a net loss of \$54.7 million for the same period in 2011. The net loss in the six month period ended June 30, 2012 was primarily attributable to finance costs of \$17.2 million and the expensed portion of IPO costs of \$16.3 million compared to finance costs of \$12.2 million and fair value adjustment on warrants of \$34.5 million for the same period in 2011. The mark to market adjustment on warrants for the second quarter of 2012 was \$Nil since all warrants were repurchased and cancelled on January 4, 2012.

	June 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 419,548,234	\$ 84,957,414
Total assets	955,626,784	475,713,755
Total liabilities	55,647,930	327,128,105

The Corporation had a combined cash and short-term investment balance of \$419.5 million as at June 30, 2012 compared to a combined cash and short-term investment balance of \$85.0 million as at December 31, 2011. The increase in these balances was due primarily to proceeds from the Corporation's IPO of HK\$4.5 billion (approximately \$570.0 million) and the issuance of 923,299,500 shares during the second quarter of 2012 partially offset by capital investments.

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Loss before income taxes	\$ (4,673,381)	\$ (9,000,835)	\$ (37,004,110)	\$ (54,187,140)
Addback/Deduct				
Expense portion of IPO costs	-	-	10,863,418	-
Fair value loss on warrants	-	(2,255,400)	-	34,528,863
Finance costs	66,201	6,839,668	17,164,370	12,162,677
Unrealized foreign exchange loss/(gain)	5,817,465	-	(633,702)	-
Interest income	(935,944)	(516,254)	(1,017,432)	(942,127)
Depreciation	65,608	46,479	125,982	83,841
Share-based payment expense	2,515,550	1,780,097	4,733,533	3,331,133
Cash flow used in operations	\$ 2,855,499	\$ (3,106,245)	\$ (5,767,941)	\$ (5,022,753)

The Corporation uses these non-IFRS measurements for its own performance measures and to provide its shareholders and investors with a measurement of the Corporation's ability to internally fund future growth expenditures. These "Non-IFRS Measurements" are reconciled to net income and net cash provided by operating activities in accordance with IFRS under the heading "Non-IFRS Measurements".

Cash flow generated from operations for the three month period ended June 30, 2012 totaled \$2.9 million compared to cash flow used in operations of \$3.1 million for the same period in 2011. The change resulted from lower finance costs in 2012 compared to 2011 due to the extinguishment of the share repurchase obligation in the first quarter of 2012 and from foreign exchange gains.

Cash flow used in operations for the first half of 2012 totaled \$5.8 million compared to \$5.0 million for the same period in 2011. The change resulted primarily from the settlement of warrants, which eliminated the fair value adjustment on warrants in the first quarter of 2012.

Summary of Quarterly Results

The following table summarizes selected unaudited financial information for the Corporation for the eight preceding quarter periods:

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Other income	\$ 2,056,449	\$ 6,979,595	\$ 257,256	\$ 425,124	\$ 516,254	\$ 425,873	\$ 116,289	\$ 128,833	\$ 13,514
Expense portion of IPO costs	44,460	16,213,418	1,852,202	1,694,883	-	-	-	-	-
Fair value adjustment on warrants	-	-	(11,790,933)	(2,440,363)	37,565,863	(3,037,000)	-	-	-
Finance costs	66,201	17,098,169	7,028,767	6,278,206	6,839,668	5,323,009	56,659	4,011	4,651
Net loss for the period	4,673,381	32,330,729	2,473,536	10,229,036	48,248,883	6,441,085	3,509,435	1,742,866	1,398,634
Loss per share	-	0.02	0.01	0.01	0.03	0.00	0.01	0.00	0.00
Exploration and evaluation expenditures	89,948,846	42,296,066	31,621,540	17,905,945	61,378,807	44,654,567	12,896,883	9,275,742	13,411,184

Results of Operations

Finance Expense

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Finance cost on share repurchase obligation	\$ -	\$ 8,119,959	\$ 5,864,052	\$ 13,629,413
Expensed portion of share issue costs	-	-	13,012,014	-
Finance cost on credit facility	-	-	266,090	-
Unwinding of discounts on provisions	66,201	32,416	137,575	61,658
Less: Amounts capitalized in exploration and evaluation assets	-	(1,312,707)	(2,115,361)	(1,528,394)
	\$ 66,201	\$ 6,839,668	\$ 17,164,370	\$ 12,162,677

Total finance expense for the three month period ended June 30, 2012 decreased by \$6.7 million from \$6.8 million to \$0.1 million compared to the same period in 2011, primarily due to the extinguishment of the share repurchase obligation. For the three months ended June 30, 2012, the Corporation recorded \$66,201 in accretion for its decommissioning liability compared to \$32,416 for the same period in 2011. The Corporation also recognized \$6.8 million for non-cash finance costs on the share repurchase obligation, net of \$1.3 million which was capitalized for the three months ended June 30, 2011.

Total finance costs for the six month period ended June 30, 2012 increased by \$5.0 million from \$12.2 million to \$17.2 million compared to the same period in 2011, primarily due to non-cash finance costs attributable to the share repurchase obligation and the expensed portion of share issue costs on the redeemable shares. For the second quarter of 2012, the Corporation recorded finance costs of \$5.9 million in total on the share repurchase obligation compared to \$13.6 million for the same period in 2011. Of this amount, \$1.9 million was capitalized in exploration and evaluation assets for the first six months of 2012 compared to \$1.5 million for the same period of 2011. The remaining amount of \$3.7 million was expensed in the six month period ended June 30, 2012 compared to \$12.1 million in the same period in 2011. The finance cost associated with the redeemable shares is a result of the accounting treatment of these shares. In conjunction with an equity financing completed in February 2011, common shares were issued to subscribers whereby a put right ("Share Redemption Rights") was agreed to pursuant to the terms and conditions of the subscription agreements ("Subscription Agreements"). According to the Share Redemption Rights, the subscribers, in specific circumstances and at the option of the subscribers, could have required the Corporation to repurchase, for cancellation, all common shares issued under the Subscription Agreements at a redemption price equivalent to the subscription price plus a 15% annual rate of return, compounded annually, if the Corporation did not complete an IPO no later than December 31, 2013. As a consequence, the put right in the Subscription Agreements resulted in these shares being presented as financial liabilities in the Corporation's statement of financial position in 2011. The redeemable shares were accounted for using amortized cost and the effective interest on the redeemable shares for the period was included in finance expense up to March 1, 2012, the date on which the put right was extinguished with the closing of the Qualifying IPO and listing on the SEHK.

Pursuant to this event, immediately prior to the IPO closing and listing, the redeemable Class "B" common shares converted to Class "A" common shares and the redemption rights of all redeemable common shares were removed with the completion of the Qualifying IPO and listing. Total transaction costs of \$17.8 million, which were netted against the share repurchase obligation, included cash fees paid of \$11.4 million and \$6.4 million assigned as fair value of fee warrants issued to finders. The carrying value of these transaction costs was allocated to share issue costs for \$4.7 million. The remainder of \$13.0 million was included in finance costs as the expensed portion of share issue costs for the nine month period ended September 30, 2012.

During the six month period ended June 30, 2012, the Corporation drew and repaid \$30.0 million on an available \$100.0 million credit facility. The credit facility was signed in the third quarter of 2011 with an effective date of October 31, 2011. The loan was classified as a financial liability and accounted for as other liabilities at amortized cost. During the six month period ended June 30, 2012, total finance costs of \$266,090 were recognized, of which \$236,873 was capitalized in exploration and evaluation assets with the remaining \$29,217 expensed in finance costs.

Accretion for the unwinding of decommissioning obligation was \$137,575 for the second quarter 2012 compared to \$61,658 in the same period 2011.

Fair Value Adjustment on Warrants

For the three month period ended June 30, 2011, a mark to market gain on warrants of \$2.3 million was recognized compared to \$Nil for the same period of 2012. A mark to market loss on warrants of \$34.5 million for the six month period ended June 30, 2011 was recorded compared to \$Nil for the six month period ended June 30, 2012. All warrants were repurchased and cancelled on January 4, 2012.

Expensed portion of IPO costs

The expensed portion of IPO costs was \$44,460 and \$16.3 million in the three and six month periods ended June 30, 2012, respectively, compared to \$Nil for both the three and six month periods ended June 30, 2011. For the first half of 2012, the expense is comprised of \$5.3 million for bonuses and \$11.0 million for IPO related costs such as legal and audit fees.

Share-based payments

For the three months ended June 30,							
2012				2011			
	General and Administrative Costs	Capitalized portion	Expensed		General and Administrative Costs	Capitalized portion	Expensed
Share-based payment expense	\$ 3,818,302	\$ 1,302,752	\$ 2,515,550	\$ 3,754,778	\$ 1,974,681	\$ 1,780,097	

For the six months ended June 30,							
2012				2011			
	General and Administrative Costs	Capitalized portion	Expensed		General and Administrative Costs	Capitalized portion	Expensed
Share-based payment expense	\$ 7,475,506	\$ 2,741,973	\$ 4,733,533	\$ 6,838,090	\$ 3,506,957	\$ 3,331,133	

The fair value of share-based payments associated with the granting of stock options and preferred shares is recognized by the Corporation in its consolidated financial statements. Fair value is determined using the Black-Scholes option pricing model. Share-based compensation expense for the three and six month periods ended June 30, 2012 was \$2.5 million and \$4.7 million, respectively, compared to \$1.8 million and \$3.3 million for the three and six month periods ended June 30, 2011, respectively. The increase in share-based payment expense is primarily the result of the Black-Scholes valuations for the Corporation's stock options granted in the first half of 2012. The Corporation capitalizes a portion of the share-based compensation expense associated with capitalized salaries and benefits. For the three and six month periods ended June 30, 2012, the Corporation capitalized \$1.3 million and \$2.7 million, respectively, of share-based payments to exploration and evaluation assets compared to \$2.0 million and \$3.5 million, respectively, for the same periods in 2011.

General and Administrative Costs

Three months ended June 30,							
2012				2011			
	General and Administrative Costs	Capitalized portion	Expensed		General and Administrative Costs	Capitalized portion	Expensed
Salaries, consulting and benefits	\$ 5,355,961	\$ 1,939,736	\$ 3,416,225	\$ 2,500,189	\$ 1,252,535	\$ 1,247,654	
Rent	528,192	290,869	237,323	203,694	108,127	95,567	
Other	1,443,915	215,010	1,228,905	1,521,092	203,548	1,317,544	
	\$ 7,328,068	\$ 2,445,615	\$ 4,882,453	\$ 4,224,975	\$ 1,564,210	\$ 2,660,765	

Six months ended June 30,							
2012				2011			
	General and Administrative Costs	Capitalized portion	Expensed		General and Administrative Costs	Capitalized portion	Expensed
Salaries, consulting and benefits	\$ 9,890,324	\$ 4,021,921	\$ 5,868,403	\$ 4,642,105	\$ 2,261,148	\$ 2,380,957	
Rent	1,040,420	541,617	498,803	399,529	209,711	189,818	
Other	2,577,161	471,279	2,105,882	2,129,801	343,840	1,785,961	
	\$ 13,507,905	\$ 5,034,817	\$ 8,473,088	\$ 7,171,435	\$ 2,814,699	\$ 4,356,736	

General and administrative expense, which includes salaries, consulting and benefits, rent, and other general administrative costs, for the three month period ended June 30, 2012 increased by \$2.2 million to \$4.9 million compared to \$2.7 million for the same period in 2011.

General and administrative expense, which includes salaries, consulting and benefits, rent, and other general administrative costs, for the six month period ended June 30, 2012 increased by \$4.1 million to \$8.5 million compared with \$4.4 million for the same period in 2011.

The increase in expense is primarily the result of growth in Corporation's professional staff and office costs to support the operation and development of our oil sands assets. The head office headcount (including employees and consultants) grew from 94 as of June 30, 2011 to 137 as at June 30, 2012. During the three and six month periods ended June 30, 2012, the Corporation capitalized salaries, consulting and benefits, rent and other general administrative costs related to capital investment of \$2.4 million and \$5.0 million, respectively, compared to \$1.6 million and \$2.8 million, respectively, for the three and six month periods ended June 30, 2011.

Depreciation

Depreciation expense increased by \$19,129 to \$65,608 for the three month period ended June 30, 2012. This compared to depreciation expense of \$46,479 for the same period in 2011. For the first half of 2012, depreciation expense was \$125,982 compared to \$83,841 for the same period in 2011. The increase was primarily due to increased computer equipment purchases.

Other Income

Other income for the three and six month periods ended June 30, 2012 increased by \$2.5 million and \$9.1 million, respectively, to \$3.0 million and \$10.0 million, respectively, compared to \$0.5 million and \$0.9 million, respectively, for the same periods in 2011. For the three and six month periods ended June 30, 2012, the increase was primarily due to foreign exchange gains of \$2.1 million and \$9.0 million, respectively, on foreign held cash funds converted to Canadian dollars. The Corporation also earned interest income of \$0.9 million and \$1.0 million, respectively, on higher cash equivalents balances for the three and six months ended June 30, 2012 as compared to \$0.5 million and \$0.9 million, respectively, for the same periods in 2011.

Income Taxes

The Corporation's deferred income tax expense changed by \$0.5 million for both the three and six month periods ended June 30, 2012 to \$Nil compared to a recovery of \$0.5 million for the three month period ended June 30, 2011 and an expense of \$0.5 million for the six month period ended June 30, 2011. The change in deferred income tax expense in 2012 compared to 2011 relates primarily to unrecognized tax losses. Recognition of tax losses is based on the Corporation'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.

Liquidity and Capital Resources

	June 30, 2012	December 31, 2011
Working capital (surplus)/deficiency	\$ (383,055,029)	7,096,022
Share repurchase obligation	-	224,362,115
Shareholders' equity	899,978,854	148,585,650
	<u>\$ 516,923,825</u>	<u>\$ 380,043,787</u>

With the close of its IPO and listing on March 1, 2012 on the SEHK, the Corporation has sufficient capital to go beyond its current obligations and does not anticipate raising new equity capital in the near future. Management believes its current capital resources and its ability to manage cash flow and working capital levels will allow the Corporation to meet its current and future obligations and to fund the development of its 2011/2012 capital program and the other needs of the business for at least the next 12 months. However, no assurance can be given that this will be the case or that future sources of capital will not be necessary. As of June 30, 2012, the Corporation's capital resources are \$516.9 million.

The Corporation also has an available \$100 million credit facility, of which \$Nil was drawn at June 30, 2012. Working capital surplus of \$383.0 million comprised \$419.5 million of cash and cash equivalents, offset by a non-cash working capital deficiency of \$36.5 million.

During the first half of 2012, the Corporation closed its IPO and listed on the SEHK where the Corporation issued 923,299,500 common shares at HK\$4.86 per share raising gross proceeds of HK\$4.5 billion (approximately \$570.0 million). Immediately prior to the IPO closing and listing, the redeemable Class "B" common shares converted to common shares and the redemption rights of all redeemable common shares were removed with the completion of the Qualifying IPO and listing.

The Corporation is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to certain expenditure commitments, deposits, accounts receivable and accounts payable which are denominated in US dollars and/or HK dollars. The Corporation 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. Thus, exchange rate fluctuations can affect the fair value of future cash flows.

The Corporation had no forward exchange rate contracts in place as at or during the six month period ended June 30, 2012. If exchange rates to convert from HK dollars to Canadian dollars had been \$0.10 higher or lower with all other variables held constant, foreign cash held at June 30, 2012 would have been impacted by approximately \$27,000. At June 30, 2012, the Corporation held HK\$13,770,160 (or approximately \$1.8 million using the June 30, 2012 exchange rate of 7.612) as cash in the Corporation's Hong Kong bank accounts.

The Corporation's \$419.5 million in cash and cash equivalents as at June 30, 2012, are held in accounts with a diversified group of highly rated third party financial institutions and consist of invested cash and cash in the Corporation's operating accounts. The cash equivalents portion is invested in high grade liquid term deposits. To date, the Corporation has experienced no loss or lack of access to its cash in operating accounts, invested cash or cash equivalents. However, the Corporation can provide no assurance that access to its invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. While the Corporation monitors the cash balances in its operating and investment accounts and adjusts the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions or corporations fail or are subject to other adverse conditions in the financial markets.

Cash Flows Summary

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Cash generated by/(used in) operating activities	\$ 4,427,826	\$ (3,120,423)	\$ 3,533,907	\$ (5,920,968)
Cash used in investing activities	(89,101,117)	(62,051,128)	(131,496,455)	(105,320,728)
Cash (used in)/generated by financing activities	(19,079,500)	398,981	461,919,666	217,082,537
Effect of exchange rate changes on cash and cash equivalents held in foreign currency (Decrease)/increase in cash and cash equivalents	(5,817,465)	-	633,702	-
Cash and cash equivalents, beginning of period	(109,570,256)	(64,772,570)	334,590,820	105,840,841
Cash and cash equivalents, end of period	\$ 419,548,234	\$ 147,381,228	\$ 419,548,234	\$ 147,381,228

Operating Activities

Net cash generated from operating activities increased by \$6.0 million to \$2.9 million for the three month period ended June 30, 2012 compared to net cash used in operating activities of \$3.1 million for the same period in 2011. The increase is primarily due to the foreign exchange gain realized on foreign held cash funds converted to Canadian dollars.

Cash flow generated from operating activities was \$4.4 million for the three months ended June 30, 2012 compared to cash flow used in operating activities of \$3.1 million for the same period 2011 and was impacted by the net change in non-cash working capital. During the six month period ended June 30, 2012, the net change in non-cash working capital items resulted in an increase in cash flow from operating activities of \$1.5 million compared to a net change of \$Nil for the same period in 2011.

Net cash used in operating activities increased by \$0.9 million to \$5.9 million for the six month period ended June 30, 2012 compared to \$5.0 million for the same period in 2011. Cash flow generated from operating activities was \$3.5 million for the second quarter of 2012 compared to cash flow used in operating activities of \$5.9 million for the same period 2011 and was impacted by the net change in non-cash working capital. During the six month period ended June 30, 2012, the net change in non-cash working capital items resulted in an increase in cash flow from operating activities of \$9.4 million compared to a decrease of \$0.9 million for the same period in 2011.

Investing Activities

Net cash used for investing activities for the three and six month periods ended June 30, 2012 increased to \$89.1 million and \$131.5 million, respectively, compared to \$62.1 million and \$105.3 million, respectively, for the same periods in 2011. This increase for the three and six months ended June 30, 2012, of \$27.0 million and \$26.2 million, respectively, is attributed to the completion of the 2011/2012 capital program investing activities for exploration and evaluation assets and includes changes in non-cash working capital balances period over period for an increase of \$58.8 million and a decrease of \$2.1 million, respectively. The remainder of the increase in investing activities relates to higher interest income earned for \$0.4 million and \$0.1 million, respectively, for the comparative periods. Capital investment for the capital program 2011/2012 has focused on the initial construction and capital costs for the West Ells project, the construction of the West Ells access road and resource delineation.

Financing Activities

Financing activities for the three month period ended June 30, 2012, consisted of the repurchase of 23,919,500 common shares, at a weighted average cost of \$0.62 per common share, for total consideration of \$14.7 million, \$5.4 million for payment of share issue costs and partially offset by \$1.0 million for stock option exercises. Net cash used from financing activities for the three month period ended June 30, 2012 was \$19.1 million.

Financing activities for the six month period ended June 30, 2012, consisted of gross proceeds received from the IPO approximating \$570.9 million, which includes \$1.0 million for stock option exercises. Net cash provided by financing activities for the six month period ended June 30, 2012, also included \$68.9 million and \$14.7 million for the payment to repurchase and cancel all warrants issued and outstanding and the repurchase of common shares, respectively, and partially offset by \$25.4 million for share issue costs, which includes a payment of \$0.5 million for IPO advisory fee.

During the first quarter of 2012, the Corporation drew and repaid \$30.0 million on its credit facility held with Orient International Resources Group Limited. As at June 30, 2012, and as at the date of this MD&A, \$Nil is outstanding on this credit facility. Refer to Section: *"Transactions with related parties"* for terms and conditions of the credit facility.

Contractual obligations and commitments

The information presented in the table below reflects management's estimate of the contractual maturities of the Corporation's obligations. These maturities may differ significantly from the actual maturities of these obligations.

As at June 30, 2012, the Corporation's commitments are as follows:

	Due within the next 12 months	Due in the next 2 to 5 years	Over 5 years
Drilling and other equipment and contracts	\$ 44,000,000	\$ -	\$ -
Lease rentals	1,625,910	6,482,136	10,063,500
Office leases ¹	1,120,676	8,621,010	4,305,931
	<u>\$ 46,746,586</u>	<u>\$ 15,103,146</u>	<u>\$ 14,369,431</u>

1. Office leases only include minimum lease commitments for the first 38 months up to October 31, 2014 for the Hong Kong office lease.

Shares Outstanding

As at August 14, 2012, the Corporation had the following shares issued and outstanding:

Class "A" common shares	2,863,165,955
Class "G" preferred shares	62,750,000
Class "H" preferred shares	22,200,000

Transactions with related parties

Balances and transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation. The Corporation had related party transactions with the following companies related by way of directors or shareholders in common:

- Orient International Resources Group Limited ("Orient") is a private company controlled by Mr. Hok Ming Tseung, a significant shareholder and director of the Corporation. At June 30, 2012, Orient owned approximately 9.4% of the outstanding shares of the Corporation. Orient has provided a credit facility to the Corporation and provides advisory services with respect to various IPO related matters and other strategic topics.
- MJH Services Ltd. ("MJH Services") is a private company wholly owned by one of Sunshine's Co-Chairmen of the Board of Directors and an Executive Director. MJH Services provides overall operational services to the Corporation.
- 1226591 Alberta Inc. ("1226591 AB Co.") is private company wholly owned by one of Sunshine's Co-Chairmen of the Board of Directors and an Executive Director. 1226591 AB Co. provides overall operational services to the Corporation.
- McCarthy Tetrault LLP ("McCarthy's") is a law firm in which a director of the Corporation is a partner. McCarthy's provides legal counsel to the Corporation.

Details of transactions between the Corporation and its related parties are disclosed below.

Advisory Fee Agreement (the "Agreement")

During 2010, the Corporation entered into the Agreement with Orient, in which the Corporation agreed to pay a fee for services to be rendered in connection with an initial filing of an IPO prospectus and listing. The fee is equal to 0.75% of the number of common shares issued and outstanding at the time of the initial filing of an IPO and may be settled at the option of the Corporation by either issuing up to 95% of the fee due in common shares plus cash or 100% of the fee due in cash. The term of the Agreement expires January 20, 2013. On March 1, 2012, the Corporation successfully closed its Qualifying IPO and listing on the SEHK. Pursuant to this event, the obligation owing for the advisory fee was recognized and 13,566,395 common shares were issued for \$8.4 million and cash fee of \$440,933 was paid. Since the terms have been fulfilled, the Agreement has terminated. The service provider is a company which is controlled by a director who is a principal of a significant shareholder of the Corporation, and who also holds a senior management position with the service provider company.

Credit Facility Agreement (the "Credit Facility Agreement")

The Corporation entered into the Credit Facility Agreement with Orient, a non-arm's length lender, in which a credit facility for general working capital purposes is available of up to a maximum of \$100 million. The credit facility was interest free until May 31, 2012, after which interest of 5% is due on a semi-annual basis on the outstanding principal. The loan is unsecured and subordinated, has no stand-by fee and can be repaid at anytime without penalty. The effective date of the agreement is October 31, 2011, and has a term of two years from the date of initial drawdown, which was January 13, 2012. Amounts drawn on the loan will be accounted for as a related party transaction since a director of the Corporation is also the controlling shareholder of the lending company. During the first quarter of 2012, the Corporation drew \$30.0 million on the credit facility and repaid the balance prior to period end. As at June 30, 2012, \$Nil was outstanding on this credit facility.

For the three and six month periods ended June 30, 2012, total finance costs were \$Nil and \$266,090, respectively, of which \$Nil and \$29,217, respectively, was expensed and \$Nil and \$236,873, respectively, was capitalized as the funds are directly attributable to the development of the Corporation's qualifying assets. Upon repayment of the outstanding balance owing on this credit facility, \$266,090 was recorded to Other Reserve due to the related party nature of this transaction.

The Corporation incurred consulting fees, share-based compensation and performance related incentive payments to MJH Services and 1226591 AB Co. of \$0.4 million and \$0.7 million each, respectively, for the three and six month periods ended June 30, 2012, respectively (three and six month period ended June 30, 2011 - \$0.4 million and \$0.7 million each, respectively).

During the period, the Corporation entered into the following trading transactions with McCarthy Tetrault LLP:

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
Other assets	\$ -	\$ -	\$ -	\$ 306,376	\$ -	\$ -	\$ -	\$ 306,376
Share issue costs	-	-	-	-	-	271,331	-	115,520
	\$ -	\$ -	\$ -	\$ 306,376	\$ -	\$ 271,331	\$ -	\$ 421,896
Legal expense	\$ -	\$ 5,418	\$ -	\$ 68,473	\$ -	\$ 86,151	\$ -	\$ 151,632
Expense portion of IPO costs	-	-	-	-	-	551,444	-	-
	\$ -	\$ 5,418	\$ -	\$ 68,473	\$ -	\$ 637,595	\$ -	\$ 151,632

The following balances were outstanding and included in trade and other payables at the end of the reporting period:

	June 30, 2012	December 31, 2011
Legal	\$ -	\$ 362,903

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense was recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Off-balance sheet arrangements

At June 30, 2012, the Corporation did not have any off-balance sheet arrangements.

Recent accounting pronouncements issued but not yet adopted

The International Accounting Standard Board (the "IASB") issued a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and related Interpretations ("IFRICs") (hereinafter collectively referred to as the "New IFRSs") which are effective for the Corporation's financial period beginning on January 1, 2013. At the date of this report, the IASB has not issued any new or revised standards, amendments and interpretations.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Corporation'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 Corporation's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

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, current production forecasts, prices, cost estimations 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 forecasts, prices and other economic conditions;
- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and
- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Corporation's development and production assets are determined using proved and probable reserves.

Independent qualified reserves evaluators prepare reserve estimates for each property at least annually and issue a report thereon. The reserve estimates are reviewed by the Corporation's engineers and operational management familiar with the property.

Bitumen Reserves

The estimation of reserves involves the exercise of judgment. Forecasts are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Corporation expects that over time its reserves estimates will be revised either upward or downward based on updated information such as the results of future drilling, testing and production. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion and depreciation and for determining potential asset impairment. For example, a revision to the proved reserves estimates would result in a higher or lower depletion and depreciation charge to net earnings. Downward revisions to reserve estimates may also result in an impairment of oil sands property, plant and equipment carrying amounts.

Recoverability of exploration and evaluation costs

Exploration and Evaluation costs ("E&E") are capitalized as exploration and evaluation assets by cash generating unit ("CGU") and are assessed for impairment when circumstances suggest that the carrying amount may exceed its 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 geographical data acquired.

Decommissioning costs

A provision is required to be recognised for the future retirement obligations associated with the Corporation's exploration and valuation assets. The decommissioning provision is based on estimated costs, taking into account the anticipated method and extent of restoration consistent with legal, regulatory and constructive 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 repurchase obligation

The Corporation had a share repurchase obligation pursuant to the accounting treatment required under IAS 32. In order to calculate a value for the share repurchase obligation, the effective interest method was applied which is based on estimates and assumptions to determine the effective interest rate. The effects of a change in these estimates or assumptions could result in a materially different amount.

Share-based payments

The Corporation 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 rights at its grant date, the estimation of which requires management to make assumptions about future volatility of the Corporation's stock price, future interest rates and the timing with respect to exercise of the options. The effects of a change in one or more of these variables could result in a materially different fair value.

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Corporation, their potential impact and the Corporation's principal risk management strategies are substantially unchanged from those disclosed in the Corporation's MD&A for the year ended December 31, 2011, which is available at www.sedar.com. The 2011 annual report of the Corporation is available at the Company's website, www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Corporation's 2011 Annual Information Form is available at www.sedar.com.

Additional Stock Exchange Information

Additional information required by the SEHK in the half-year interim report and now shown elsewhere in this report is as follows:

Code of Corporate Governance Practice (the "Code")

The Corporation is committed to maintaining high standards of corporate governance. The Corporation 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.

Since the Corporation became a publicly listed company during the reporting period on March 1, 2012, the Corporation confirms that the Code was complied with following its public listing, save that the Corporation has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Corporation will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis at each annual general meeting, which is consistent with market practice in Canada.

Internal controls over financial reporting

There was no change in the Corporation's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Compliance with the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code")

The Corporation confirms that it complied with the Model Code following its public listing.

The Corporation adopted policies regarding directors' securities transactions in its Corporate Disclosure and Trading Policy that has terms that are no less exacting than those set out in the Model Code of Appendix 10 of the rules governing the listing of securities on the SEHK.

The Board of Directors confirms that all the Directors of the Corporation have complied with the required policies in the Corporate Disclosure and Trading Policy throughout the six months ended June 30, 2012.

Purchase, sale or redemption of Sunshine's listed securities

Class "A" Common Shares

On March 1, 2012, the Corporation successfully closed a Qualifying IPO on the SEHK, issuing 923,299,500 shares at HK\$4.86 per share, raising gross proceeds of HK\$4,487,235,570. Pursuant to this event, the Corporation recognized an advisory fee owing for HK\$69,402,821 (approximately \$8,818,656). The obligation was settled through the issuance of 13,566,395 common shares for \$8,377,723 and cash paid of \$440,933.

Immediately prior to the IPO closing and listing, the redeemable Class "B" common shares converted to common shares and the redemption rights of all redeemable common shares were removed with the completion of the Qualifying IPO and listing. In addition, the Corporation's share repurchase obligation was extinguished and 433,884,300 common shares were reclassified to shareholders' equity for \$247,956,860. As well, all issued and outstanding purchase warrants were repurchased for \$2,370,501.

During the three months ended June 30, 2012, the Corporation repurchased 23,919,500 common shares for a weighted average per common share price of HK\$4.65 (\$0.62), for total consideration of \$14,742,994. There were also 12,507,040 stock options exercised for gross proceeds of \$1,014,081 and \$445,343 transferred from the share option reserve for the three month period ended June 30, 2012. There were also 1,390,000 Class "G" preferred shares exercised and converted to 417,000 common shares for \$695 in the second quarter of 2012.

Class "G" Preferred Shares

For the three and six month periods ended June 30, 2012, the Corporation issued Nil and 830,000 Class "G" preferred shares, respectively. There were 1,390,000 Class "G" preferred shares exercised and converted to 417,000 common shares in the second quarter of 2012.

Class "H" Preferred Shares

For the three and six month periods ended June 30, 2012, the Corporation issued Nil Class "H" preferred shares. There was Nil Class "H" preferred shares exercised and converted in the second quarter of 2012.

Pre-IPO Stock Option Plan

For the three and six month periods ended June 30, 2012, the Corporation granted Nil and 1,730,000, respectively, pre-IPO stock options at a weighted average exercise price of \$0.48 per stock option. For both the three and six months ended June 30, 2012, 12,507,040 pre-IPO stock options were exercised for gross proceeds of \$1,014,081. There were also Nil and 934,300, respectively, forfeitures of pre-IPO stock options during the three and six months ended June 30, 2012.

Post-IPO Stock Option Plan:

On January 26, 2012, the Post-IPO Stock Option Plan (the "Post-IPO Stock Option Plan") dated January 26, 2012, was approved and adopted by shareholders at the Corporation's Annual General and Special Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Corporation's 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. Options granted under the Post-IPO Stock Option Plan will have an exercise price that is determined by the Board of Directors but is not less than the higher of the closing price and the five day average closing price of Class "A" common shares, listed on the SEHK.

The Corporation granted 3,794,430 post-IPO stock options at a weighted average exercise price of HK\$4.86 (\$0.64) per stock option for the six months ended June 30, 2012. There were Nil forfeitures of post-IPO stock options during the three months ended June 30, 2012. For the first three months of 2012, there were no stock options granted or forfeited from the Post-IPO Stock Option Plan.

Directors' and Chief Executive's Interest in Shares and Share Options

At June 30, 2012, the direct and indirect interest of the directors (and their related parties) and the Chief Executive Officer of the Corporation in the shares and share options of the Corporation and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Corporation pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code were as follows:

Common Shares

Name	Position	Company	Number of common shares held	Nature of interest	Approximate percentage of interest in the Corporation's common shares
Mr. Michael John Hibberd	Director	Sunshine Oilsands Ltd.	44,320,000	Personal	1.57%
Mr. Songning Shen	Director	Sunshine Oilsands Ltd.	46,537,660	Personal	1.64%
Mr. Hok Ming Tseung	Director	Sunshine Oilsands Ltd.	280,233,035	Personal	9.90%
Mr. Tingan Liu	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Haotian Li	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Gregory George Turnbull	Director	Sunshine Oilsands Ltd.	10,100,000	Personal	0.36%
Mr. Raymond Fong	Director	Sunshine Oilsands Ltd.	7,000,000	Personal	0.25%
Mr. Wazir Chand Seth	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Robert John Herdman	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Gerald Franklin Stevenson	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. John Empey Zahary	CEO	Sunshine Oilsands Ltd.	-	Personal	0.00%

Preferred Shares

Name	Position	Company	Number of preferred shares held	Nature of interest	Approximate percentage of interest in the Corporation's preferred shares
Mr. Michael John Hibberd	Director	Sunshine Oilsands Ltd.	11,000,000	Personal	12.95%
Mr. Songning Shen	Director	Sunshine Oilsands Ltd.	11,000,000	Personal	12.95%
Mr. Hok Ming Tseung	Director	Sunshine Oilsands Ltd.	15,000,000	Personal	17.66%
Mr. Tingan Liu	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Haotian Li	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Gregory George Turnbull	Director	Sunshine Oilsands Ltd.	600,000	Personal	0.71%
Mr. Raymond Fong	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Wazir Chand Seth	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Robert John Herdman	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Gerald Franklin Stevenson	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. John Empey Zahary	CEO	Sunshine Oilsands Ltd.	4,000,000	Personal	4.71%

Stock Options

Name	Position	Company	Number of options held	Nature of interest	Approximate percentage of interest in the Corporation's stock options
Mr. Michael John Hibberd	Director	Sunshine Oilsands Ltd.	29,480,000	Personal	15.11%
Mr. Songning Shen	Director	Sunshine Oilsands Ltd.	29,480,000	Personal	15.11%
Mr. Hok Ming Tseung	Director	Sunshine Oilsands Ltd.	1,000,000	Personal	0.51%
Mr. Tingan Liu	Director	Sunshine Oilsands Ltd.	-	Personal	0.00%
Mr. Haotian Li	Director	Sunshine Oilsands Ltd.	1,000,000	Personal	0.51%
Mr. Gregory George Turnbull	Director	Sunshine Oilsands Ltd.	1,600,000	Personal	0.82%
Mr. Raymond Fong	Director	Sunshine Oilsands Ltd.	1,500,000	Personal	0.77%
Mr. Wazir Chand Seth	Director	Sunshine Oilsands Ltd.	1,700,000	Personal	0.87%
Mr. Robert John Herdman	Director	Sunshine Oilsands Ltd.	1,000,000	Personal	0.51%
Mr. Gerald Franklin Stevenson	Director	Sunshine Oilsands Ltd.	1,000,000	Personal	0.51%
Mr. John Empey Zahary	CEO	Sunshine Oilsands Ltd.	4,000,000	Personal	2.05%

Movements in Stock Options

Name	Position	Balance, beginning of period	Options granted	Options exercised	Options forfeited	Options expired	Balance, end of period
Mr. Michael John Hibberd	Director	30,680,000	-	(1,200,000)	-	-	29,480,000
Mr. Songning Shen	Director	30,880,000	-	(1,400,000)	-	-	29,480,000
Mr. Hok Ming Tseung	Director	1,000,000	-	-	-	-	1,000,000
Mr. Tingan Liu	Director	-	-	-	-	-	-
Mr. Haotian Li	Director	1,000,000	-	-	-	-	1,000,000
Mr. Gregory George Turnbull	Director	1,600,000	-	-	-	-	1,600,000
Mr. Raymond Fong	Director	1,500,000	-	-	-	-	1,500,000
Mr. Wazir Chand Seth	Director	1,700,000	-	-	-	-	1,700,000
Mr. Robert John Herdman	Director	1,000,000	-	-	-	-	1,000,000
Mr. Gerald Franklin Stevenson	Director	1,000,000	-	-	-	-	1,000,000
Mr. John Empey Zahary	CEO	2,000,000	2,000,000	-	-	-	4,000,000
Total for Directors and CEO		72,360,000	2,000,000	(2,600,000)	-	-	71,760,000
Total for other stock option holders		130,598,540	3,524,430	(9,907,040)	(934,300)	-	123,281,630
Total		202,958,540	5,524,430	(12,507,040)	(934,300)	-	195,041,630

Other than the holdings disclosed in the tables above, none of the directors or Chief Executive Officer of the Corporation or their related parties had any interests or short positions in any shares of the Corporation or its associated corporations as at June 30, 2012.

Review of interim results

The unaudited condensed interim consolidated financial statements for the Corporation for the three and six month periods ended June 30, 2012, were reviewed by the Audit Committee of the Corporation and the Corporation's external auditor.

Publication of information on SEDAR, the Stock Exchange of Hong Kong's website and the Corporation's website

This second quarter results announcement is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the Corporation'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.



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2012

(Unaudited)

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)
(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Other income					
Foreign exchange gain		\$ 2,056,449	\$ -	\$ 9,036,044	\$ -
Interest income		935,944	516,254	1,017,432	942,127
		2,992,393	516,254	10,053,476	942,127
Salaries, consulting and benefits	7	3,416,225	1,247,654	5,868,403	2,380,957
Rent	7	237,323	95,567	498,803	189,818
Legal and audit		91,502	445,480	302,735	666,017
Depreciation	8	65,608	46,479	125,982	83,841
Share-based payment expense	13	2,515,550	1,780,097	4,733,533	3,331,133
Expense portion of IPO costs		44,460	-	16,257,878	-
Fair value adjustment on warrants		-	(2,255,400)	-	34,528,863
Finance costs	15	66,201	6,839,668	17,164,370	12,162,677
Other	7	1,228,905	1,317,544	2,105,882	1,785,961
		7,665,774	9,517,089	47,057,586	55,129,267
Loss before income taxes		4,673,381	9,000,835	37,004,110	54,187,140
Income tax (recovery)/expense	11	-	(519,792)	-	502,828
Net loss and comprehensive loss for the period attributable to equity holders of the Corporation		\$ 4,673,381	\$ 8,481,043	\$ 37,004,110	54,689,968
Loss per share					
Basic and diluted	16	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04

See accompanying notes to the condensed interim consolidated financial statements.

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

	Notes	As at June 30, 2012	As at December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents	4	\$ 419,548,234	\$ 84,957,414
Trade and other receivables	5	1,846,249	3,582,953
Prepaid expenses and deposits	6	1,290,312	797,718
		<u>422,684,795</u>	<u>89,338,085</u>
Non-Current Assets			
Exploration and evaluation	7	532,080,211	382,277,258
Property and equipment	8	861,778	718,785
Other assets		-	3,379,627
		<u>532,941,989</u>	<u>386,375,670</u>
		<u>\$ 955,626,784</u>	<u>\$ 475,713,755</u>
Liabilities and Shareholders' Equity			
Current Liabilities			
Trade and other payables	9	\$ 38,416,166	\$ 33,365,438
Provisions for decommissioning obligation	10	1,213,600	68,365
Fair value of warrants		-	63,000,304
		<u>39,629,766</u>	<u>96,434,107</u>
Non-Current Liabilities			
Share repurchase obligation	14	-	224,362,115
Provisions for decommissioning obligation	10	16,018,164	6,331,883
		<u>16,018,164</u>	<u>230,693,998</u>
		<u>55,647,930</u>	<u>327,128,105</u>
Shareholders' Equity			
Share capital	12	1,006,269,331	219,173,885
Reserve for share based compensation		37,104,223	30,074,070
Deficit		(143,394,700)	(100,662,305)
		<u>899,978,854</u>	<u>148,585,650</u>
		<u>\$ 955,626,784</u>	<u>\$ 475,713,755</u>

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

(Unaudited)

For the six months ended June 30, 2012

	Notes	**Reserve for share based compensation	Share capital	Deficit	Total
Balance at December 31, 2011		\$ 30,074,070	\$ 219,173,885	\$ (100,662,305)	\$ 148,585,650
Net loss and comprehensive loss for the period		-	-	(37,004,110)	(37,004,110)
Recognition of share-based payments	13	7,475,506	-	-	7,475,506
Issue of common shares	12	-	569,880,057	-	569,880,057
Issue of preferred shares	12	-	415	-	415
Reclassification of share repurchase obligation	14	-	247,956,860	-	247,956,860
Repurchase of common shares	12	-	(14,742,994)	-	(14,742,994)
Issue of common shares for services	18.1	-	8,377,723	-	8,377,723
Issue of shares under employee share option plan	12	-	1,014,081	-	1,014,081
Share option reserve transferred on exercise of share options	12	(445,353)	445,353	-	-
Repurchase and cancellation of warrants	12	-	-	(5,994,375)	(5,994,375)
Recognition of credit on credit facility	18.1	-	-	266,090	266,090
Share issue costs, net of deferred tax (\$Nil)	12	-	(25,836,049)	-	(25,836,049)
Balance at June 30, 2012		\$ 37,104,223	\$ 1,006,269,331	\$ (143,394,700)	\$ 899,978,854

For the six months ended June 30, 2011

	Notes	**Reserve for share based compensation	Share capital	Deficit	Total
Balance at December 31, 2010		\$ 17,642,606	\$ 224,526,472	\$ (19,736,288)	\$ 222,432,790
Net loss and comprehensive loss for the period		-	-	(54,689,968)	(54,689,968)
Recognition of share-based payments	13	6,847,901	-	-	6,847,901
Issue of common shares	12	-	7,469,466	-	7,469,466
Common shares issued on a flow-through basis	12	-	6,471,475	-	6,471,475
Issue of preferred shares	12	-	7,920	-	7,920
Cancellation of preferred shares	12	-	(70)	-	(70)
Issues of shares under employee share option plan	12	(9,811)	1,064,550	-	1,054,739
Share option reserve transferred on exercise of share options	12	(439,607)	439,607	-	-
Reclassification of fair value of warrants	12	(2,277,223)	(20,513,800)	(13,533,477)	(36,324,500)
Share issue costs, net of deferred tax (\$136,120)	12	-	(401,908)	-	(401,908)
Balance at June 30, 2011		\$ 21,763,866	\$ 219,063,712	\$ (87,959,733)	\$ 152,867,845

** Reserve for share based compensation includes recognition of share-based payments on stock options as well as share-based payments on fee warrants.

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Cash flows from operating activities					
Loss before income taxes		\$ (4,673,381)	\$ (9,000,835)	\$ (37,004,110)	\$ (54,187,140)
Finance costs	15	66,201	6,839,668	17,164,370	12,162,677
Expense portion of IPO costs		-	-	10,863,418	-
Fair value adjustment on warrants		-	(2,255,400)	-	34,528,863
Unrealized foreign exchange loss/(gain)		5,817,465	-	(633,702)	-
Interest income		(935,944)	(516,254)	(1,017,432)	(942,127)
Depreciation	8	65,608	46,479	125,982	83,841
Share-based payment expense	13	2,515,550	1,780,097	4,733,533	3,331,133
		2,855,499	(3,106,245)	(5,767,941)	(5,022,753)
Movements in working capital					
(Increase)/decrease in trade and other receivables		2,163,060	(1,147,596)	1,962,320	(1,655,271)
(Increase)/decrease in prepaids and deposits		76,207	46,438	(492,594)	(33,176)
Increase/(decrease) in trade and other payables		(666,940)	1,086,980	7,832,122	790,232
		4,427,826	(3,120,423)	3,533,907	(5,920,968)
Cash flows from investing activities					
Interest received		935,944	516,254	1,017,432	942,127
Payments for exploration and evaluation assets		(89,948,846)	(62,407,530)	(132,244,912)	(106,033,374)
Payments for property and equipment	8	(88,215)	(159,852)	(268,975)	(229,481)
		(89,101,117)	(62,051,128)	(131,496,455)	(105,320,728)
Cash flows from financing activities					
Payment for deferred portion of IPO costs		-	(624,448)	-	(624,448)
Payment for repurchase of common shares	12	(14,742,994)	-	(14,742,994)	-
Proceeds from issue of preferred shares		-	3,420	415	7,920
Proceeds from issue of common shares	12	1,014,081	1,044,981	570,894,138	15,653,908
Payment for share issue costs		(5,350,587)	(280,746)	(24,928,286)	(818,774)
Proceeds from share repurchase obligation		-	-	-	210,000,001
Payment for transaction costs on share repurchase obligation		-	255,774	-	(7,136,070)
Advance from credit facility		-	-	30,000,000	-
Repayment of credit facility		-	-	(30,000,000)	-
Payment for advisory fee		-	-	(440,933)	-
Payment for warrant settlement		-	-	(68,862,674)	-
		(19,079,500)	398,981	461,919,666	217,082,537
Effect of exchange rate changes on cash and cash equivalents held in foreign currency					
		(5,817,465)	-	633,702	-
Net increase/(decrease) in cash and cash equivalents					
		(109,570,256)	(64,772,570)	334,590,820	105,840,841
Cash and cash equivalents, beginning of period		529,118,490	212,153,798	84,957,414	41,540,387
Cash and cash equivalents, end of period		\$ 419,548,234	\$ 147,381,228	\$ 419,548,234	\$ 147,381,228

See accompanying notes to the condensed interim consolidated financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six month periods ended June 30, 2012

(Expressed in Canadian dollars, unless otherwise indicated)

(Unaudited)

1. General information

Sunshine Oilsands Ltd. (the "Corporation"), was incorporated under the laws of the Province of Alberta on February 22, 2007. The address of the Corporation's principal place of business is 1020, 903 - 8 Avenue S.W., Calgary, Alberta, T2P 0P7, Canada. The Corporation's shares were listed on the Stock Exchange of Hong Kong Limited ("SEHK") on March 1, 2012 and trade under the stock code symbol "2012". On January 26, 2012, shareholders of the Corporation authorized the Corporation to complete up to a 25:1 share split. The Board of Directors of the Corporation concluded that a 20:1 share split was appropriate, increasing the number of common shares, preferred shares and stock options to 20 times their previous outstanding amounts. All share and stock option information is therefore presented on a post split basis.

The Corporation is engaged in the exploration for, and the development of oil properties for the future production of bitumen in the Athabasca oil sands region in Alberta, Canada.

On May 4, 2012, Sunshine Oilsands (Hong Kong) Limited ("Sunshine Hong Kong") was incorporated in Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and is the wholly-owned subsidiary of the Corporation. The address of the principal place of business for Sunshine Hong Kong is Unit 8504A, 85/F, International Commerce Centre 1 Austin Road West, Kowloon.

The Corporation is a development stage company. The continued existence of the Corporation is dependent on its ability to maintain capital funding to further development and to meet obligations. In the event that such capital is not available to the Corporation, it will be necessary to prioritize activities, which may result in delaying and potentially losing business opportunities and cause potential impairment to recorded assets. The Corporation currently anticipates incurring substantial expenditures to further its capital development program.

2. Basis of Preparation

The condensed interim consolidated financial information included in this report has been prepared in accordance with IAS 34 'Interim Financial Reporting'. The results for the interim periods are unaudited and in the opinion of management include all adjustments necessary for a fair presentation of the results for the periods presented. All such adjustments are of a normal recurring nature. This report should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2011. The Corporation prepares its interim consolidated financial statements in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been omitted or condensed. Accordingly, these interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements as at and for the year ended December 31, 2011.

The condensed interim consolidated financial statements incorporate the financial statements of the Corporation and the Corporation's wholly owned subsidiaries, Fern Energy Ltd. ("Fern") and Sunshine Hong Kong. All inter-company transactions, balances, revenues and expenses are eliminated in full on consolidation.

3. Recent accounting pronouncements issued but not yet adopted

The International Accounting Standard Board (the "IASB") issued a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and related Interpretations ("IFRICs") (hereinafter collectively referred to as the "New IFRSs") which are effective for the Corporation's financial period beginning on January 1, 2013. At the date of this report, the IASB has not issued any new or revised standards, amendments and interpretations.

4. Cash and cash equivalents

	June 30, 2012	December 31, 2011
Cash	\$ 259,128	\$ 3,906,318
Term deposits	419,289,106	81,051,096
Cash and cash equivalents	\$ 419,548,234	\$ 84,957,414

The Corporation's cash equivalents comprises of term deposits which have maturity ranges of less than one week to three months and an interest rate range of 0.5% to 1.26%.

5. Trade and other receivables

	June 30, 2012	December 31, 2011
Trade	\$ 677,461	\$ 2,047,804
Accruals and other	855,650	12,164
Goods and Services Taxes receivable	313,138	1,522,985
	\$ 1,846,249	\$ 3,582,953

6. Prepaid expenses and deposits

	June 30, 2012	December 31, 2011
Prepaid expenses	\$ 830,272	\$ 344,912
Deposits	460,040	452,806
	\$ 1,290,312	\$ 797,718

7. Exploration and evaluation assets

	Intangible Assets	Tangible Assets	Land and Leaseholds	Total
Cost				
Balance, January 1, 2012	\$ 294,054,419	\$ 13,568,491	\$ 74,654,348	\$ 382,277,258
Additions	140,695,603	7,799,880	1,307,470	149,802,953
Balance, June 30, 2012	\$ 434,750,022	\$ 21,368,371	\$ 75,961,818	\$ 532,080,211
Cost				
Balance, January 1, 2011	\$ 125,560,650	\$ 4,056,655	\$ 68,219,040	\$ 197,836,345
Additions	168,493,769	9,511,836	6,435,308	184,440,913
Balance, December 31, 2011	\$ 294,054,419	\$ 13,568,491	\$ 74,654,348	\$ 382,277,258

The Corporation is a development stage entity and as a result, no depletion expense has been recorded for any period. During the three and six month periods ended June 30, 2012 and 2011, the Corporation capitalized the following costs:

	Three months ended June 30,					
	2012			2011		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based payment expense (Note 13.4)	\$ 3,818,302	\$ 1,302,752	\$ 2,515,550	\$ 3,754,778	\$ 1,974,681	\$ 1,780,097
Pre-production operating loss	996,786	996,786	-	-	-	-
Finance costs (Note 15)	66,201	-	66,201	8,152,375	1,312,707	6,839,668
	\$ 4,881,289	\$ 2,299,538	\$ 2,581,751	\$ 11,907,153	\$ 3,287,388	\$ 8,619,765

Six months ended June 30,

	2012			2011		
	Total amount	Capitalized portion	Expensed	Total amount	Capitalized portion	Expensed
Share-based payment expense (Note 13.4)	\$ 7,475,506	\$ 2,741,973	\$ 4,733,533	\$ 6,838,090	\$ 3,506,957	\$ 3,331,133
Pre-production operating loss	1,126,354	1,126,354	-	495,600	495,600	-
Finance costs (Note 15)	19,279,731	2,115,361	17,164,370	13,691,071	1,528,394	12,162,677
	\$ 27,881,591	\$ 5,983,688	\$ 21,897,903	\$ 21,024,761	\$ 5,530,951	\$ 15,493,810

During the three and six month periods ended June 30, 2012 and 2011, the Corporation capitalized the following in general and administrative costs:

Three months ended June 30,

	2012			2011		
	General and Administrative Costs	Capitalized portion	Expensed	General and Administrative Costs	Capitalized portion	Expensed
Salaries, consulting and benefits	\$ 5,355,961	\$ 1,939,736	\$ 3,416,225	\$ 2,500,189	\$ 1,252,535	\$ 1,247,654
Rent	528,192	290,869	237,323	203,694	108,127	95,567
Other	1,443,915	215,010	1,228,905	1,521,092	203,548	1,317,544
	\$ 7,328,068	\$ 2,445,615	\$ 4,882,453	\$ 4,224,975	\$ 1,564,210	\$ 2,660,765

Six months ended June 30,

	2012			2011		
	General and Administrative Costs	Capitalized portion	Expensed	General and Administrative Costs	Capitalized portion	Expensed
Salaries, consulting and benefits	\$ 9,890,324	\$ 4,021,921	\$ 5,868,403	\$ 4,642,105	\$ 2,261,148	\$ 2,380,957
Rent	1,040,420	541,617	498,803	399,529	209,711	189,818
Other	2,577,161	471,279	2,105,882	2,129,801	343,840	1,785,961
	\$ 13,507,905	\$ 5,034,817	\$ 8,473,088	\$ 7,171,435	\$ 2,814,699	\$ 4,356,736

8. Property and equipment
Computer & Office Equipment

Cost	June 30, 2012	December 31, 2011
Balance, beginning of year	\$ 1,207,431	\$ 776,968
Additions	268,975	430,463
Balance, end of period	\$ 1,476,406	\$ 1,207,431
Accumulated Depreciation		
Balance, beginning of year	\$ 488,646	\$ 302,917
Depreciation expense	125,982	185,729
Balance, end of period	\$ 614,628	\$ 488,646
Net book value	\$ 861,778	\$ 718,785

9. Trade and other payables

	June 30, 2012	December 31, 2011
Trade	\$ 2,714,656	\$ 11,951,503
Accrued liabilities	35,701,510	21,413,935
	\$ 38,416,166	\$ 33,365,438

10. Provisions for decommissioning obligation

At June 30, 2012, the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$25,592,000. Expenditures to settle asset decommissioning obligations are estimated to be incurred between 2012 and 2037. Decommissioning costs are based on estimated cash flows discounted using annual risk-free interest rates between 1.00% to 2.24% per annum and inflated using an inflation rate of 2.0% per annum.

	June 30, 2012	December 31, 2011
Balance, beginning of year	\$ 6,400,248	\$ 2,169,064
Additional provisions recognised	10,413,481	3,728,617
Effect of changes in the discount rate	280,460	374,004
Unwinding of discount rate and effect	137,575	128,563
	17,231,764	6,400,248
Current portion	(1,213,600)	(68,365)
Balance, end of period	\$ 16,018,164	\$ 6,331,883

11. Income taxes

11.1 Income tax recognised in the Statement of Operations

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tax expense comprises:				
Tax expense in respect of the current year	\$ -	\$ (785,358)	\$ -	\$ 133,993
Effect of changes in tax rates and laws	-	265,566	-	368,835
Total tax expense	\$ -	\$ (519,792)	\$ -	\$ 502,828

11.2 Deferred tax balances

June 30, 2012	Opening Balance	Recognised in loss	Recognised in other comprehensive loss	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
Temporary differences								
Exploration and evaluation	\$ (32,593,406)	\$ (5,023,088)	\$ -	\$ -	\$ -	\$ -	\$ (3,507,966)	\$ (41,124,460)
Property and equipment	(31,476)	(61,219)	-	-	-	-	-	(92,695)
Other financial liabilities	755,155	(34,395)	-	-	-	-	3,507,966	4,228,726
Share issue expenses	871,668	(1,368,916)	-	-	-	-	-	(497,248)
	<u>\$ (30,998,059)</u>	<u>\$ (6,487,618)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,485,677)</u>
Tax losses	30,998,059	6,487,618	-	-	-	-	-	37,485,677
Deferred tax assets (liabilities)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
June 30, 2011	Opening Balance	Recognised in loss	Recognised in other comprehensive loss	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
Temporary differences								
Exploration and evaluation	\$ (15,458,127)	\$ (10,899,366)	\$ -	\$ -	\$ -	\$ -	\$ (439,001)	\$ (26,796,494)
Property and equipment	(4,093)	(32,457)	-	-	-	-	-	(36,550)
Other financial liabilities	498,289	(15,415)	-	-	-	-	321,225	804,099
Share issue expenses	1,895,725	(1,372,370)	-	134,507	-	-	-	657,862
	<u>\$ (13,068,206)</u>	<u>\$ (12,319,608)</u>	<u>\$ -</u>	<u>\$ 134,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (117,776)</u>	<u>\$ (25,371,083)</u>
Tax losses	12,176,944	11,267,771	-	-	-	-	-	23,444,715
Deferred tax assets (liabilities)	\$ (891,262)	\$ (1,051,837)	\$ -	\$ 134,507	\$ -	\$ -	\$ (117,776)	\$ (1,926,368)

12. Share capital

On January 26, 2012, shareholders of the Corporation authorized the Corporation to complete up to a 25:1 share split. Prior to closing the IPO, the Board of Directors of the Corporation concluded that a 20:1 share split was appropriate, increasing the number of common shares, preferred shares and stock options to 20 times their previous outstanding amounts. All share and stock option information is therefore presented on a post split basis. In addition, the Articles of Incorporation were amended to remove the voting rights from the Class "G" preferred shares.

The Corporation'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" non-voting preferred shares to be issued shall not exceed 10% of the issued and outstanding number of common shares including any common shares that have been authorized for issuance. The authorized number of preferred shares shall not be considered a rolling 10% available number and any preferred shares that are redeemed or converted in accordance with their terms shall permanently reduce the number available; and
- an unlimited number of Class "H" non-voting preferred shares.

Issued capital

	June 30, 2012	December 31, 2011
Common shares	\$ 1,006,226,856	\$ 216,760,629
Class "G" preferred shares	31,375	31,655
Class "H" preferred shares	11,100	11,100
Purchase warrants	-	2,370,501
Issued capital	\$ 1,006,269,331	\$ 219,173,885

Common shares

	June 30, 2012		December 31, 2011	
	Number of shares	\$	Number of shares	\$
12.1 Fully paid Class "A" common shares				
Balance, beginning of period	1,470,171,240	\$ 216,760,629	1,423,298,640	\$ 196,318,022
Issued for cash	923,299,500	569,880,057	15,432,780	7,469,466
Issued for services	13,566,395	8,377,723	-	-
Reclassification of share repurchase obligation	433,884,300	247,956,860	-	-
Repurchase of common shares	(23,919,500)	(14,742,994)	-	-
Repurchase of purchase warrants	-	2,370,501	-	-
Conversion of preferred shares exercised	417,000	695	-	-
Common shares issued on a flow-through basis	-	-	13,370,820	6,471,476
Exercise of flow-through warrants	-	-	11,215,000	5,293,314
Issue of shares under employee share option plan	12,507,040	1,014,081	6,854,000	1,263,050
Share option reserve transferred on exercise of stock options	-	445,353	-	511,626
Share issue costs	-	(25,836,049)	-	(566,325)
Balance, end of period	2,829,925,975	1,006,226,856	1,470,171,240	216,760,629

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

On January 4, 2012, the Corporation completed the repurchase and cancellation of all purchase warrants. As a result, 14,412,160 purchase warrants with a value of \$2,370,501 were transferred to common shares.

On March 1, 2012, the Corporation successfully closed a Qualifying IPO on the SEHK, issuing 923,299,500 common shares at HK\$4.86 per share, raising gross proceeds of HK\$4,487,235,570 (approximately \$569,880,057) (Note 14). Pursuant to this event, the Corporation recognized an advisory fee owing (Note 18) of HK\$69,402,821 (approximately \$8,818,656). The obligation was settled through the issuance of 13,566,395 common shares for \$8,377,723 and cash paid of \$440,933.

Also in conjunction with the Qualifying IPO, the balance of \$230,226,167 of the share repurchase obligation (net of transaction costs of \$17,769,848), including 433,884,300 common shares (originally comprised of 289,256,200 Class "A" common shares and 144,628,100 Class "B" common shares), were reclassified to share capital as the terms of the Subscription Agreements were agreed with the subscription holders to have been met and the share repurchase obligation was extinguished. Prior to closing of the IPO, 144,628,100 Class "B" common shares were exchanged for Class "A" common shares on a one for one basis and then cancelled. Total transaction costs of \$17,769,848, which were netted against the share repurchase obligation, included cash fees paid of \$11,391,611 and \$6,378,237 assigned as fair value of fee warrants issued to finders.

The carrying value of these transaction costs was allocated to share issue costs for \$4,718,679. The remainder of \$13,012,014 has been included in finance costs (Note 15) for the six month period ended June 30, 2012.

In June 2012, the Corporation repurchased and cancelled 23,919,500 common shares at a weighted average cost per common share of HK\$4.65 (\$0.62), for total consideration of \$14,742,994.

For the six month period ended June 30, 2012, pursuant to total costs incurred for its IPO, the Corporation recognized an allocation amount of share issue costs of \$21,117,370.

Class "G" preferred shares

The Corporation's Board of Directors has authorized for issuance a maximum of 65,000,000 Class "G" preferred shares. The Class "G" preferred shares are non-voting and were issued at \$0.0005 per Class "G" preferred share and are convertible into Class "A" common shares at the option of the holder at any time in accordance with the conversion schedule outlined below.

For the three and six month periods ended June 30, 2012, the Corporation issued Nil and 830,000, respectively, Class "G" preferred shares. The Corporation had the following Class "G" preferred shares issued and outstanding:

June 30, 2012					December 31, 2011				
	Class "G" preferred shares	\$	Weighted average price			Class "G" preferred shares	\$	Weighted average price	
Balance, beginning of period	63,310,000	\$ 31,655	\$ 0.33		54,470,000	\$ 27,235	\$ 0.31		
Issued	830,000	415	\$ 0.48		10,800,000	5,400	\$ 0.48		
Exercised	(1,390,000)	(695)	\$ 0.33		-	-	\$ -		
Forfeited	-	-	\$ -		(1,960,000)	(980)	\$ 0.46		
Balance, end of period	62,750,000	\$ 31,375	\$ 0.33		63,310,000	\$ 31,655	\$ 0.33		
Convertible, end of period	18,825,000	\$ 9,413	\$ 0.33		-	\$ -	\$ -		

The fair value of the Class "G" preferred shares was estimated to be \$0.48 per Class "G" preferred share, using the Black Scholes pricing model with the following assumptions.

Six months ended June 30, 2012	
Weighted average expected volatility (%)	75%
Risk-free rate of return (%)	1.10%
Expected life (years)	1.89 - 1.99
Expected forfeitures	Nil
Dividends	Nil

Class "H" preferred shares

The Corporation's Board of Directors has authorized for issuance a maximum of 25,000,000 Class "H" preferred shares. The Class "H" preferred shares were issued at \$0.0005 per Class "H" preferred share and are convertible into Class "A" common shares at the option of the holder at any time in accordance with the conversion schedule outlined below.

The Corporation had the following Class "H" preferred shares issued and outstanding:

June 30, 2012					December 31, 2011				
	Class "H" preferred shares	\$	Weighted average price			Class "H" preferred shares	\$	Weighted average price	
Balance, beginning of period	22,200,000	\$ 11,100	\$ 0.42		7,200,000	\$ 3,600	\$ 0.28		
Issued	-	-	\$ -		15,000,000	7,500	\$ 0.48		
Balance, end of period	22,200,000	\$ 11,100	\$ 0.42		22,200,000	\$ 11,100	\$ 0.42		
Convertible, end of period	6,660,000	\$ 3,330	\$ 0.42		-	\$ -	\$ -		

The term, conversion rights and conversion schedule are the same for both the Class "G" and the Class "H" preferred shares. The preferred shares have a term commencing from the date of issue until the date ("expiry date") that is the earlier of the date that is 24 months after the date that the Corporation completes an initial public offering ("IPO") and listing on the SEHK (or other going public transaction or listing as determined and at the sole discretion of the Board of Directors of the Corporation) or December 31, 2013. The Corporation completed its IPO and listing on March 1, 2012.

Both the Class "G" and the Class "H" preferred shares are convertible into Class "A" common shares, at the option of the holder, at any time prior to the expiry date for no additional consideration to the Corporation. The number of Class "A" common shares the holder is entitled to receive upon conversion, is determined based on the following conversion schedule. The preferred shares shall automatically convert on the expiry date for the number of Class "A" common shares the holder is entitled to as set out in the following conversion schedule.

Time Period	Preferred Shares Conversion Schedule %	Class "G" and "H" Preferred Shares Outstanding	Class "A" Common Shares Issuable on Conversion
Date of issuance to initial public offering (IPO) less a day	0%	84,950,000	-
IPO date to 6 months after IPO date less a day	30%	84,950,000	25,485,000
6 months after IPO date to 12 months after IPO date less a day	46%	84,950,000	39,077,000
12 months after IPO date to 18 months after IPO date less a day	62%	84,950,000	52,669,000
18 months after IPO date to 21 months after IPO date less a day	78%	84,950,000	66,261,000
21 months after IPO date to 24 months after IPO date	100%	84,950,000	84,950,000
Expiry Date	100%	84,950,000	84,950,000

Prior to the IPO, the holders of Class "G" and Class "H" preferred shares were only entitled to a redemption amount of \$0.0005 per Class "G" and Class "H" preferred share.

The Class "G" preferred shares are redeemable by the Corporation at any time for the number of Class "A" common shares the holder is entitled to on the date of redemption as set out in the above conversion schedule. The Class "H" preferred shares are redeemable by the Corporation for \$0.0005 each on or after the date that is 21 months after an IPO, upon 30 days' notice to the holder.

The preferred shares are retractable at the option of the holder commencing on the date that is 21 months after an IPO for the number of Class "A" common shares the holder is entitled to on the date of redemption as set out in the above conversion schedule for \$0.0005 each.

In the event that a holder of preferred shares ceases to be eligible to hold preferred shares (e.g. ceases to be a director, officer, employee, consultant or advisor of the Corporation), the preferred shares held by such holder shall terminate and be cancelled on the date that is 30 days after such holder ceases to be eligible and, to the extent the holder requests such preferred shares be converted or redeemed, shall only be convertible or redeemable for the number of Class "A" common shares the holder is then entitled to on the date the person ceases to be eligible as set out in the above conversion schedule.

Warrants

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

(a) Purchase warrants

	June 30, 2012		December 31, 2011	
	Number of warrants	\$	Number of warrants	\$
Balance, beginning of period	14,412,160	\$ 2,370,501	139,132,060	\$ 22,884,301
Repurchased and cancelled	(14,412,160)	(2,370,501)	-	-
Reclassification of purchase warrants	-	-	(124,719,900)	(20,513,800)
Balance, end of period	-	\$ -	14,412,160	\$ 2,370,501

On January 4, 2012, the Corporation completed the repurchase and cancellation of all purchase warrants. For the six month period ended June 30, 2012, the Corporation recognized \$Nil fair value adjustment on the purchase warrants since the fair value of the warrants was based on the settlement amount paid to warrant holders.

(b) Fee Warrants

Fee warrants	June 30, 2012		December 31, 2011	
	Number of warrants	\$	Number of warrants	\$
Balance, beginning of period	-	\$ -	12,499,920	\$ 2,277,223
Issued	-	-	-	-
Cancelled	-	-	-	-
Reclassification of fee warrants	-	-	(12,499,920)	(2,277,223)
Balance, end of period	-	\$ -	-	\$ -

On January 4, 2012, the Corporation completed the repurchase and cancellation of all fee warrants. For the six month period ended June 30, 2012, the Corporation recognized \$Nil fair value adjustment on the fee warrants since the fair value of the warrants was based on the settlement amount paid to warrant holders.

13. Share-based payments**13.1 Employee stock option plans***Pre-IPO Stock Option Plan:*

The Corporation's pre-IPO stock option plan was for directors, officers, employees, consultants and advisors of the Corporation. The options vest over a period ranging up to three years from the date of grant. Options granted under the Stock Option Plan will have an exercise price that is not less than the price of the most recent private placement, or, if the common shares are listed on a stock exchange, the price which is, from time to time, permitted under the rules of any stock exchange or exchanges on which the Class "A" common shares are then listed.

On September 9, 2010, the 2009 Stock Option Plan dated May 7, 2009 (the "Pre-IPO Stock Option Plan"), was amended, approved, ratified and adopted by shareholders at the Corporation's Annual General and Special Meeting. The amendment increased the maximum number of Class "A" common shares that may be reserved for issuance pursuant to the Pre-IPO Stock Option Plan from 169,289,160 to the greater of 210,000,000 or 10% of the total number of issued and outstanding shares. Following the IPO listing on March 1, 2012, no further options will be issued under the Pre-IPO Stock Option Plan.

Post-IPO Stock Option Plan:

On January 26, 2012, the Post-IPO Stock Option Plan (the "Post-IPO Stock Option Plan") dated January 26, 2012, was approved and adopted by shareholders at the Corporation's Annual General Meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Corporation's 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. Options granted under the Post-IPO Stock Option Plan will have an exercise price that is determined by the Board of Directors but is not less than the higher of the closing price and the five day average closing price of Class "A" common shares, listed on the SEHK.

The terms and conditions of each of the respective Stock Option Plans are substantially similar and have been presented below in total.

13.2 Fair value of stock options granted in the period

The weighted average fair value of the stock options granted for the three and six month periods ended June 30, 2012 was \$0.31 and \$0.28, respectively, (year ended December 31, 2011: \$0.27). Options were priced using the Black Scholes model. From inception of the Corporation to June 30, 2012, the cumulative weighted average fair value per option is \$0.11. 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 behavioural considerations. Expected volatility is based on the historical share price volatility from a peer group of listed companies. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 1%.

The table below details the input variables used in the Black Scholes model to determine the fair value for share-based compensation for the three and six month periods ended June 30, 2012:

2012	Series 35b	Series 35c	Series 36b	Series 36c	Series 37	Series 38a
Grant date share price (\$)	0.48	0.48	0.48	0.48	0.48	0.64
Exercise price (\$)	0.48	0.48	0.48	0.48	0.48	0.64
Expected volatility (%)	77.6	77.6	77.6	77.6	77.6	75.5
Option life (years)	3.0	3.0	3.0	3.0	3.0	3.0
Dividend yield (%)	-	-	-	-	-	-
Risk-free interest rate (%)	0.96 - 1.26	0.96 - 1.26	0.96 - 1.26	0.96 - 1.26	0.96 - 1.26	1.09 - 1.30
Expected forfeitures (%)	1.0	1.0	1.0	1.0	1.0	1.0

2012	Series 38b	Series 38c	Series 38d	Series 39	Series 40
Grant date share price (\$)	0.64	0.65	0.64	0.64	0.65
Exercise price (\$)	0.64	0.65	0.64	0.64	0.65
Expected volatility (%)	75.5	75.5	75.5	75.5	75.5
Option life (years)	3.0	3.0	3.0	3.0	3.0
Dividend yield (%)	-	-	-	-	-
Risk-free interest rate (%)	1.09 - 1.30	1.09 - 1.30	1.09 - 1.30	1.09 - 1.30	1.09 - 1.30
Expected forfeitures (%)	1.0	1.0	1.0	1.0	1.0

13.3 Movements in stock options during the period

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

	Three months ended June 30, 2012		Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Balance, beginning of period	204,064,080	0.22	202,958,540	0.22	189,723,980	0.18
Granted	3,794,430	0.64	5,524,430	0.59	23,313,540	0.48
Exercised	(12,507,040)	0.08	(12,507,040)	0.08	(6,854,000)	0.18
Forfeited	(309,840)	0.48	(934,300)	0.48	(3,224,980)	0.40
Balance, end of period	<u>195,041,630</u>	<u>0.23</u>	<u>195,041,630</u>	<u>0.23</u>	<u>202,958,540</u>	<u>0.22</u>
Exercisable, end of period	<u>175,633,197</u>	<u>0.21</u>	<u>175,633,197</u>	<u>0.21</u>	<u>170,785,520</u>	<u>0.18</u>

The stock options outstanding as at June 30, 2012, had a weighted average remaining contractual life of 1.59 years (December 31, 2011 – 1.92 years).

13.4 Share-based compensation

Share-based payment expense has been recorded in the interim consolidated financial statements for the periods presented as follows:

Three months ended June 30, 2012			
	Expensed	Capitalized	Total
Stock options	\$ 854,033	\$ 368,365	\$ 1,222,398
Preferred shares	1,661,517	934,387	2,595,904
	<u>\$ 2,515,550</u>	<u>\$ 1,302,752</u>	<u>\$ 3,818,302</u>

Three months ended June 30, 2011			
	Expensed	Capitalized	Total
Stock options	\$ 737,597	\$ 1,066,567	\$ 1,804,164
Preferred shares	1,042,500	908,114	1,950,614
	<u>\$ 1,780,097</u>	<u>\$ 1,974,681</u>	<u>\$ 3,754,778</u>

Six months ended June 30, 2012			
	Expensed	Capitalized	Total
Stock options	\$ 1,411,477	\$ 865,772	\$ 2,277,249
Preferred shares	3,322,056	1,876,201	5,198,257
	<u>\$ 4,733,533</u>	<u>\$ 2,741,973</u>	<u>\$ 7,475,506</u>

Six months ended June 30, 2011			
	Expensed	Capitalized	Total
Stock options	\$ 1,440,092	\$ 1,797,630	\$ 3,237,722
Preferred shares	1,891,041	1,709,327	3,600,368
	<u>\$ 3,331,133</u>	<u>\$ 3,506,957</u>	<u>\$ 6,838,090</u>

14. Share repurchase obligation

	June 30, 2012	December 31, 2011
Balance, beginning of period	\$ 224,362,115	\$ -
Issue of subscriptions for cash	-	210,000,001
Transaction costs	-	(17,769,848)
Accretion	5,864,052	32,131,962
Reclassification to common shares	(230,226,167)	-
Balance, end of period	\$ -	\$ 224,362,115

On March 1, 2012, the Corporation successfully closed a Qualifying IPO and listing on the SEHK. Pursuant to this event, the balance of the share repurchase obligation of \$230,226,167 (net of total transaction costs of \$17,769,848), including 433,884,300 common shares comprising of 289,256,200 Class "A" common shares and 144,628,100 Class "B" common shares, has been reclassified to share capital as the terms of the Subscription Agreements were agreed with the subscription holders to have been met and the share repurchase obligation has been extinguished. The Class "B" common shares were surrendered for cancellation and exchanged for Class "A" common shares.

For the three and six month periods ended June 30, 2012, finance costs expensed were \$Nil and \$3,985,564 (2011 - \$6,807,252 and \$12,101,019), respectively, and finance costs of \$Nil and \$1,878,488 (2011 - \$1,312,707 and \$1,528,394), respectively, were capitalized as the funds are directly attributable to the development of the Corporation's qualifying assets.

Of the total transaction costs which were netted against the obligation, \$Nil and \$4,718,679, respectively, have been proportionately allocated to share issue costs with the remainder \$Nil and \$13,012,014, respectively, expensed for the three and six month periods ended June 30, 2012.

15. Finance costs

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Finance cost on share repurchase obligation ¹	\$ -	\$ 8,119,959	\$ 5,864,052	\$ 13,629,413
Expensed portion of share issue costs ²	-	-	13,012,014	-
Finance cost on credit facility ³	-	-	266,090	-
Unwinding of discounts on provisions	66,201	32,416	137,575	61,658
Less: Amounts capitalized in exploration and evaluation assets ⁴	-	(1,312,707)	(2,115,361)	(1,528,394)
	\$ 66,201	\$ 6,839,668	\$ 17,164,370	\$ 12,162,677

1. Finance costs on share repurchase obligation relate to the \$210 million common share subscriptions, which closed in early 2011. These finance costs relate to accretion of the common share subscriptions, which had a share repurchase right, and have been accounted for using the effective interest method (Note 14). During the three and six month periods ended June 30, 2012, total finance costs of \$Nil and \$5,864,052 (2011 - \$8,119,959 and \$13,629,413), respectively, were recognized, of which \$Nil and \$1,878,488 (2011 - \$1,312,707 and \$1,528,394), respectively, was capitalized in exploration and evaluation assets with the remaining \$Nil and \$3,985,564 (2011 - \$6,807,252 and \$12,101,019), respectively, expensed in finance costs. On March 1, 2012, the share repurchase obligation was reclassified to equity.

2. For the three and six month periods ended June 30, 2012, expensed portion of share issue costs of \$Nil and \$13,012,014 (2011 - \$Nil and \$Nil), respectively, relates to the allocation portion of transaction costs incurred in relation to 433,884,300 common shares issued in February 2011 for \$210 million, which were previously netted against the share repurchase obligation.

3. During the three and six month periods ended June 30, 2012, the Corporation drew and repaid \$30.0 million on an available \$100.0 million credit facility. The loan was accounted for using the effective interest method (Note 18). During the three and six month periods ended June 30, 2012, total finance costs of \$Nil and \$266,090 (2011 - \$Nil and \$Nil), respectively, were recognized, of which \$Nil and \$236,873 (2011 - \$Nil and \$Nil), respectively, was capitalized in exploration and evaluation assets with the remaining \$Nil and \$29,217 (2011 - \$Nil and \$Nil), respectively, expensed in finance costs.

4. For the three and six month periods ended June 30, 2012, amount comprises of \$Nil and \$1,878,488 (2011 - \$1,312,707 and \$1,528,394), respectively, for capitalized portion of finance costs on share repurchase obligation and \$Nil and \$236,873 (2011 - \$Nil and \$Nil), respectively, capitalized finance costs on credit facility.

16. Loss per share

The weighted average number of basic Class "A" common shares for the three and six month periods ended June 30, 2012 and 2011 is presented below. 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 Corporation was in a loss position for the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Basic - Class "A" common shares ¹	2,842,070,746	1,441,441,220	2,382,143,368	1,441,441,220
Diluted - Class "A" common shares	2,842,070,746	1,441,441,220	2,382,143,368	1,441,441,220
Redeemable Class "A" common shares	-	289,256,200	-	289,256,200
Redeemable Class "B" common shares	-	144,628,100	-	144,628,100
Class "G" preferred shares	62,750,000	56,470,000	62,750,000	56,470,000
Class "H" preferred shares	22,200,000	14,200,000	22,200,000	14,200,000
Stock Options	195,041,630	194,223,980	195,041,630	194,223,980
Warrants	-	173,326,200	-	173,326,200

1. On January 26, 2012, shareholders of the Corporation authorized the Corporation to complete up to a 25:1 share split. The Board of Directors of the Corporation concluded that a 20:1 share split was appropriate, increasing the number of common shares, preferred shares and stock options to 20 times their previous outstanding amounts. All share and stock option information is therefore presented on a post split basis.

2. The number of Class "A" common shares presented is the weighted average number of shares for the three and six month periods ended June 30, 2012. Prior to the closing of the IPO on March 1, 2012, 289,256,200 redeemable Class "A" common shares and 144,628,100 redeemable Class "B" common shares were excluded from the weighted average calculation.

17. Financial instruments

17.1 Capital risk management

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

The Corporation's strategy is to access capital, through equity issuances and the utilization of debt, in order to maintain a strong capital base for the objectives of maintaining financial flexibility and to sustain the future development of the business. The Corporation manages its capital structure and makes adjustments relative to changes in economic conditions and the Corporation's risk profile. In order to maintain the capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current working capital levels. The Corporation monitors its working capital in order to assess capital efficiency. The Corporation's capital structure currently includes shareholders' equity and working capital. The Corporation is not subject to any externally imposed financial covenants.

On March 1, 2012, the Corporation successfully closed a Qualifying IPO and listing on the SEHK. Pursuant to this event, the balance of the share repurchase obligation, including 433,884,300 common shares (originally comprised of 289,256,200 Class "A" common shares and 144,628,100 Class "B" common shares), were reclassified as the terms of the Subscription Agreements were agreed with the subscription holders to have been met. All Class "B" common shares were exchanged for Class "A" common shares prior to the closing of the IPO and then were cancelled.

There is no change in the Corporation's objectives and strategies of capital management for the three and six month periods ended June 30, 2012.

The Corporation's capital structure is described below:

	June 30, 2012	December 31, 2011
Working capital (surplus)/deficiency	\$ (383,055,029)	\$ 7,096,022
Share repurchase obligation	-	224,362,115
Shareholders' equity	899,978,854	148,585,650
	\$ 516,923,825	\$ 380,043,787

17.2 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3 of the annual consolidated financial statements for the year ended December 31, 2011.

17.3 Categories of financial instruments

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash, deposits and other receivables	\$ 421,854,523	\$ 421,854,523	\$ 88,993,173	\$ 88,993,173
Financial Liabilities				
Fair value through profit or loss (FVTPL)	-	-	63,000,304	63,000,304
Other liabilities	38,416,166	38,416,166	257,727,553	257,727,553

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 Corporation does not use any derivative financial instruments to mitigate these risk exposures. The Corporation 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, such as currency risk, commodity price risk and interest rate risk will affect the Corporation'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 Corporation's objectives, policies or processes to manage market risks.

The Corporation is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to certain expenditure commitments, deposits, accounts receivable and accounts payable which are denominated in US dollars and/or HK dollars. The Corporation 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. Thus, exchange rate fluctuations can affect the fair value of future cash flows. The Corporation had no forward exchange rate contracts in place as at or during the six month period ended June 30, 2012. If exchange rates to convert from HK dollars to Canadian dollars had been \$0.10 higher or lower with all other variables held constant, foreign cash held at June 30, 2012 would have been impacted by approximately \$27,000.

On March 1, 2012, the Corporation listed on the SEHK, closed its IPO and issued 923,299,500 shares at HK\$4.86 per share for gross proceeds of HK\$4,487,235,570. At June 30, 2012, the Corporation held HK\$13,770,160 (or \$1,809,055 using the June 30, 2012 exchange rate of 7.612) as cash in the Corporation's Hong Kong bank account.

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 Corporation has not attempted to mitigate commodity price risk through the use of various financial derivative and physical delivery sales contracts but may consider doing so in the future.

17.6 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 June 30, 2012, the Corporation does not have any floating rate debt.

17.7 Credit risk management

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's cash, deposits and receivables and GST receivable. As at June 30, 2012, the Corporation's receivables consisted of 66.5% from oil sale receivables, 16.5% of other receivables and 17.0% from GST receivable.

The Corporation is exposed to credit risk on amounts held in individual banking institutions for balances that are above nominal guaranteed amounts. The Corporation periodically monitors published and available credit information of all its banking institutions.

The Corporation's \$419,548,234 in cash and cash equivalents as at June 30, 2012, are held in accounts with a diversified group of highly rated third party financial institutions and consist of invested cash and cash in the Corporation's operating accounts. The cash equivalents portion is invested in high grade liquid term deposits.

The Corporation is exposed to credit risk from the Corporation's receivables from purchasers of the Corporation's crude oil. At June 30, 2012, there was no allowance for impairment of accounts receivable and the Corporation did not provide for any doubtful accounts nor was it required to write-off any receivables, as no receivables were considered past due or impaired. The Corporation considers any amounts in excess of 120 days past due.

17.8 Liquidity risk management

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's approach to managing liquidity is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or bank debt proceeds. The Corporation expects to settle all trade and other payable within 90 days.

The Corporation utilizes authorizations for expenditures to manage its planned capital expenditures and actual expenditures are regularly monitored and modified as considered necessary.

17.9 Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

The fair value of cash, term deposits, trade and other receivables, trade and other payables and accrued liabilities approximate their carrying values due to their short term maturity. The Corporation's financial instruments have been assessed on their fair value hierarchy described below.

18. Related party transactions

Balances and transactions between the Corporation and its subsidiary, who are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

18.1 Trading transactions

The Corporation paid consulting fees to two directors of the Corporation (Note 18.2).

During the period, the Corporation had the following transactions and balances outstanding and included in trade and other payables with a law firm in which a director of the Corporation is a partner:

	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services	Sales of goods and services	Purchases of goods and services
Other assets	\$ -	\$ -	\$ -	\$ 306,376	\$ -	\$ -	\$ -	\$ 306,376
Share issue costs	-	-	-	-	-	271,331	-	115,520
	\$ -	\$ -	\$ -	\$ 306,376	\$ -	\$ 271,331	\$ -	\$ 421,896
Legal expense	\$ -	\$ 5,418	\$ -	\$ 68,473	\$ -	\$ 86,151	\$ -	\$ 151,632
Expense portion of IPO costs	-	-	-	-	-	551,444	-	-
	\$ -	\$ 5,418	\$ -	\$ 68,473	\$ -	\$ 637,595	\$ -	\$ 151,632

	June 30,		December 31,	
	2012		2011	
Legal	\$ -	\$ -	\$ 362,903	

Advisory Fee Agreement (the "Agreement")

During 2010, the Corporation entered into the Agreement in which the Corporation has agreed to pay a fee for services to be rendered in connection with an initial filing of an IPO prospectus and listing. The fee is equal to 0.75% of the number of common shares issued and outstanding at the time of the initial filing of an IPO and may be settled at the option of the Corporation by either issuing up to 95% of the fee due in common shares plus cash or 100% of the fee due in cash. The term of the Agreement expires January 20, 2013. On March 1, 2012, the Corporation successfully closed its Qualifying IPO and listing on the SEHK. Pursuant to this event, the obligation was settled through the issuance of 13,566,395 common shares for \$8,377,723 and cash paid of \$440,933. Since the terms have been fulfilled, the Agreement has terminated.

The service provider is a company which is controlled by a director who is a principal of a significant shareholder of the Corporation, and who also holds a senior management position with the service provider company.

Credit Facility Agreement (the "Credit Facility Agreement")

The Corporation entered into the Credit Facility Agreement with a non-arm's length lender in which a credit facility for general working capital purposes is available of up to a maximum of \$100 million. The credit facility was interest free until May 31, 2012, after which, interest of 5% is due on a semi-annual basis on the outstanding principal. The loan is unsecured and subordinated, has no stand-by fee and can be repaid at anytime without penalty. The effective date of the agreement is October 31, 2011, and has a term of two years from the date of initial drawdown, which was January 13, 2012. Amounts drawn on the loan will be accounted for as a related party transaction since a director of the Corporation is also the controlling shareholder of the lending company. The loan is a financial liability and would be classified as other liabilities and recorded at amortised cost, using the effective interest method. As at June 30, 2012, \$Nil was outstanding on this credit facility.

For the three and six month periods ended June 30, 2012, total finance costs were \$Nil and \$266,090, respectively, of which \$Nil and \$29,217, respectively, was expensed and \$Nil and \$236,873, respectively, was capitalized as the funds are directly attributable to the development of the Corporation's qualifying assets. Upon repayment of the outstanding balance owing on this credit facility, \$266,090, respectively, was recorded to Other Reserve due to the related party nature of this transaction.

No guarantees have been given or received. No expense has been recognised in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

18.2 Compensation of key management personnel and directors

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Directors' fees	\$ 195,250	\$ -	\$ 374,500	\$ -
Salaries and allowances	364,295	215,053	732,886	430,016
Share-based payments	1,582,555	1,457,786	3,314,961	3,172,467
Consulting fees	225,000	230,940	450,000	455,940
Bonuses	-	-	5,000,000	-
	<u>\$ 2,367,100</u>	<u>\$ 1,903,779</u>	<u>\$ 9,872,347</u>	<u>\$ 4,058,423</u>

The remuneration of the Co-Chairmen, directors and key executives is determined by the Compensation Committee and approved by the Board of Directors with regard to the performance of individuals and market trends. Key management personnel includes the following executives of the Corporation: President and Chief Executive Officer, Chief Financial Officer and Vice President, Finance, Executive Vice President, Corporate Operations, Chief Operating Officer and Strategic Advisor.

19. Operating lease arrangements**19.1 Payments recognised as an expense**

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Minimum lease payments	\$ 514,878	\$ 176,551	\$ 1,019,368	\$ 342,003

20. Commitments for expenditure

At June 30, 2012, the Corporation's commitments are as follows:

	Due within the next 12 months	Due in the next 2 to 5 years	Over 5 years
Drilling and other equipment and contracts	\$ 44,000,000	\$ -	\$ -
Lease rentals	1,625,910	6,482,136	10,063,500
Office leases ¹	1,120,676	8,621,010	4,305,931
	<u>\$ 46,746,586</u>	<u>\$ 15,103,146</u>	<u>\$ 14,369,431</u>

1. Office leases only includes minimum lease commitments for the first 38 months up to October 31, 2014 for the Hong Kong premises lease.

21. Supplemental cash flow disclosures

Non-cash transactions

For the three month period ended June 30, 2012, the Corporation had the following non-cash transactions:

- capitalized general and administrative costs including share-based payments and finance costs (Note 7).

For the six month period ended June 30, 2012, the Corporation had the following non-cash transactions:

- the settlement of the advisory fee through the issuance of 13,566,395 common shares for \$8,377,723 (Note 18.1);
- the share repurchase obligation has been reclassified to share capital for \$230,226,167 (Note 12); and
- capitalized general and administrative costs including share-based payments and finance costs (Note 7).

Supplemental cash flow disclosures

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash provided by (used in):				
Trade and other receivables	\$ 2,158,398	\$ 3,536,980	\$ 1,736,704	\$ (1,404,049)
Prepaid expenses and deposits	76,205	21,189	(492,594)	1,539,493
Trade and other payables	(64,850,048)	(49,281,939)	5,050,728	4,785,422
	\$ (62,615,445)	\$ (45,723,770)	\$ 6,294,838	\$ 4,920,866
Changes in non-cash working capital relating to:				
<i>Operating activities</i>				
Trade and other receivables	\$ 2,163,060	\$ (1,147,596)	\$ 1,962,320	\$ (1,655,271)
Prepaid expenses and deposits	76,208	46,438	(492,594)	(33,176)
Trade and other payables	(666,940)	1,086,980	7,832,122	790,232
	\$ 1,572,328	\$ (14,178)	\$ 9,301,848	\$ (898,215)
<i>Investing activities</i>				
Exploration and evaluation assets	\$ (58,837,185)	\$ (47,622,858)	\$ 2,006,766	\$ (93,951)
<i>Financing activities</i>				
Share issue costs and IPO costs	\$ (5,350,587)	\$ 1,913,266	\$ (5,013,776)	\$ 5,913,032
	\$ (62,615,444)	\$ (45,723,770)	\$ 6,294,838	\$ 4,920,866
<i>Reconciliation of:</i>				
Exploration and evaluation assets	\$ 31,111,661	\$ 14,784,672	\$ 134,251,678	\$ 105,939,423
Changes in non-cash working capital	58,837,185	47,622,858	(2,006,766)	93,951
Payments for exploration and evaluation assets	\$ 89,948,846	\$ 62,407,530	\$ 132,244,912	\$ 106,033,374
<i>Reconciliation of:</i>				
Share issue costs and transaction costs	\$ -	\$ 1,938,237	\$ 19,914,510	\$ 13,867,876
Changes in non-cash working capital	5,350,587	(1,913,266)	5,013,776	(5,913,032)
Payment for share issue costs	\$ 5,350,587	\$ 24,971	\$ 24,928,286	\$ 7,954,844

22. Approval of interim consolidated financial statements

The interim consolidated financial statements were approved by the Board of Directors and authorized for issue on August 14, 2012.

Appendix to the Condensed Interim Consolidated Financial Statements

Additional Stock Exchange Information

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

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

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

SUNSHINE OILSANDS LTD.

STATEMENTS OF FINANCIAL POSITION (Unconsolidated)

	June 30, 2012	December 31, 2011
Non-current assets		
Property and equipment	\$ 859,737	\$ 718,785
Exploration and evaluation assets	532,037,369	382,234,416
Other assets	-	3,379,627
Amount due from subsidiaries	66,907	-
Investment in subsidiaries	60,100	60,000
	<u>533,024,113</u>	<u>386,392,828</u>
Current Assets		
Other receivables	1,845,369	3,582,072
Prepaid expense and deposits	1,280,893	797,718
Cash and cash equivalents	419,541,397	84,950,577
	<u>422,667,659</u>	<u>89,330,367</u>
Current Liabilities		
Trade and other payables	38,369,301	33,365,438
Provision for decommissioning obligation	1,213,600	68,365
Fair value of warrants	-	63,000,304
Borrowings	-	-
	<u>39,582,901</u>	<u>96,434,107</u>
Net current assets (liabilities)	<u>383,084,758</u>	<u>(7,103,740)</u>
Total assets less current liabilities	<u>916,108,871</u>	<u>379,289,088</u>
Non-current liabilities		
Share repurchase obligation	-	224,362,115
Provision for decommissioning obligation	16,018,164	6,331,883
Deferred tax liabilities	-	-
	<u>16,018,164</u>	<u>230,693,998</u>
Net Assets	<u>\$ 900,090,707</u>	<u>\$ 148,595,090</u>
Capital and reserves		
Share capital	1,006,269,331	219,173,885
Reserve for share based compensation	37,104,223	30,074,070
Deficit	(143,282,847)	(100,652,865)
	<u>\$ 900,090,707</u>	<u>\$ 148,595,090</u>

A2. Directors' emoluments and other staff costs

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

	For the three month period ended June 30,		For the six month period ended June 30,	
	2012	2011	2012	2011
<u>Directors' emoluments</u>				
Directors' fees	\$ 195,250	\$ -	\$ 374,500	\$ -
Salaries and allowances	225,000	230,940	450,000	455,940
Contribution to retirement benefit scheme	-	-	-	-
Bonuses	-	-	5,000,000	-
Share-based payments	1,094,041	883,380	2,259,510	1,942,596
	<u>1,514,291</u>	<u>1,114,320</u>	<u>8,084,010</u>	<u>2,398,536</u>
<u>Other staff costs</u>				
Salaries and other benefits	4,875,513	2,225,095	8,878,807	4,071,592
Contribution to retirement benefit scheme	60,198	44,153	187,017	114,572
Share-based payments	2,724,261	2,871,398	5,215,996	4,895,494
Total other staff costs	<u>7,659,972</u>	<u>5,140,646</u>	<u>14,281,820</u>	<u>9,081,658</u>
Total staff costs, including director's emoluments	9,174,263	6,254,966	22,365,830	11,480,194
Less: bonus included with expensed portion of IPO costs	-	-	5,000,000	-
Less: staff costs capitalized in exploration and evaluation assets	3,242,488	3,227,216	6,763,894	5,768,105
	<u>\$ 5,931,775</u>	<u>\$ 3,027,750</u>	<u>\$ 10,601,936</u>	<u>\$ 5,712,089</u>

Details of the directors' emoluments are as follows:

For the three month period ended June 30, 2012

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits schemes	Share based compensation	Performance related incentive payments	Total
Michael Hibberd	\$ 24,000	\$ 112,500	\$ -	\$ 226,489	\$ -	\$ 362,989
Songning Shen	24,000	112,500	-	226,489	-	362,989
Tseung Hok Ming	18,000	-	-	579,702	4,600,000	5,197,702
Tingan Liu	-	-	-	-	-	-
Haotian Li	18,000	-	-	8,817	-	26,817
Kevin Flaherty ¹	-	-	-	-	-	-
Raymond Fong	20,000	-	-	-	75,000	95,000
Zhijun Qin ¹	-	-	-	-	-	-
Wazir C. (Mike) Seth	23,250	-	-	-	75,000	98,250
Greg Turnbull	20,000	-	-	12,354	100,000	132,354
Robert Herdman	24,750	-	-	20,095	75,000	119,845
Gerald Stevenson	23,250	-	-	20,095	75,000	118,345
	<u>\$ 195,250</u>	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ 1,094,041</u>	<u>\$ 5,000,000</u>	<u>\$ 6,514,291</u>

- These individuals ceased to be directors of the Corporation in 2011.

Sunshine Oilsands Ltd.

For the three month period ended June 30, 2011

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits schemes	Share based compensation	Performance related incentive payments	Total
Michael Hibberd	\$ -	\$ 115,470	\$ -	\$ 255,204	\$ -	\$ 370,674
Songning Shen	-	115,470	-	255,204	-	370,674
Tseung Hok Ming	-	-	-	329,150	-	329,150
Tingan Liu	-	-	-	-	-	-
Haotian Li	-	-	-	20,945	-	20,945
Kevin Flaherty ¹	-	-	-	2,245	-	2,245
Raymond Fong	-	-	-	2,011	-	2,011
Zhijun Qin ¹	-	-	-	2,011	-	2,011
Wazir C. (Mike) Seth	-	-	-	2,011	-	2,011
Greg Turnbull	-	-	-	14,599	-	14,599
Robert Herdman	-	-	-	-	-	-
Gerald Stevenson	-	-	-	-	-	-
	\$ -	\$ 230,940	\$ -	\$ 883,380	\$ -	\$ 1,114,320

1. These individuals ceased to be directors of the Corporation in 2011.

For the six month period ended June 30, 2012

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits schemes	Share based compensation	Performance related incentive payments	Total
Michael Hibberd	\$ 44,000	\$ 225,000	\$ -	\$ 477,107	\$ -	\$ 746,107
Songning Shen	45,000	225,000	-	477,107	-	747,107
Tseung Hok Ming	36,000	-	-	1,164,431	4,600,000	5,800,431
Tingan Liu	-	-	-	-	-	-
Haotian Li	33,000	-	-	25,720	-	58,720
Kevin Flaherty ¹	-	-	-	2,011	-	2,011
Raymond Fong	42,000	-	-	2,011	75,000	119,011
Zhijun Qin ¹	-	-	-	2,011	-	2,011
Wazir C. (Mike) Seth	43,500	-	-	2,011	75,000	120,511
Greg Turnbull	40,500	-	-	26,719	100,000	167,219
Robert Herdman	48,250	-	-	40,191	75,000	163,441
Gerald Stevenson	42,250	-	-	40,191	75,000	157,441
	\$ 374,500	\$ 450,000	\$ -	\$ 2,259,510	\$ 5,000,000	\$ 8,084,010

1. These individuals ceased to be directors of the Corporation in 2011.

For the six month period ended June 30, 2011

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits schemes	Share based compensation	Performance related incentive payments	Total
Michael Hibberd	\$ -	\$ 227,970	\$ -	\$ 510,408	\$ -	\$ 738,378
Songning Shen	-	227,970	-	510,408	-	738,378
Tseung Hok Ming	-	-	-	665,240	-	665,240
Tingan Liu	-	-	-	-	-	-
Haotian Li	-	-	-	196,913	-	196,913
Kevin Flaherty ¹	-	-	-	7,264	-	7,264
Raymond Fong	-	-	-	6,797	-	6,797
Zhijun Qin ¹	-	-	-	6,797	-	6,797
Wazir C. (Mike) Seth	-	-	-	6,797	-	6,797
Greg Turnbull	-	-	-	31,972	-	31,972
Robert Herdman	-	-	-	-	-	-
Gerald Stevenson	-	-	-	-	-	-
	\$ -	\$ 455,940	\$ -	\$ 1,942,596	\$ -	\$ 2,398,536

1. These individuals ceased to be directors of the Corporation in 2011.

A3. Five highest paid individuals

The five highest paid individuals includes three directors of the Corporation and two officers of the Corporation for the three and six month periods ended June 30, 2012 (2011 – two directors and three officers). Since the directors' emoluments are disclosed above, the compensation of the remaining officers for the Corporation is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Salaries and other benefits	\$ 180,404	\$ 168,015	\$ 369,761	\$ 327,057
Contributions to retirement benefits schemes	-	(2,219)	2,307	4,435
Share based compensation	327,912	-	679,956	518,873
Performance related incentive payments	-	-	-	-
	<u>\$ 508,316</u>	<u>\$ 165,796</u>	<u>\$ 1,052,024</u>	<u>\$ 850,365</u>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
HK\$ nil to HK\$1,000,000	2	2	-	-
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	-	-	1	2
HK\$2,500,001 to HK\$3,000,000	2	3	-	-
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	-	-	-	1
HK\$5,500,001 to HK\$6,000,000	-	-	3	2
HK\$6,000,001 to HK\$6,500,000	-	-	-	-
HK\$6,500,001 to HK\$7,000,000	-	-	-	-
> HK\$7,000,000	-	-	1	-

For the three and six months ended June 30, 2012, the conversion factor used in the above table is 1C\$ = 7.668 HK\$ and 1C\$ = 7.713 HK\$, respectively (three and six months ended June 30, 2011 – 1C\$ = 8.033 and 1C\$ = 7.963, respectively).