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SUNSHINE OILSANDS LTD.

陽光油砂有限公司*

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

(HKEX: 2012, TSX: SUO)

Announcement of results for the fourth quarter and the year ended December 31, 2012

Sunshine Oilsands Ltd. (the “Corporation” or “Sunshine”) is pleased to announce its financial results for the fourth quarter and year ended December 31, 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, March 26, 2013

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.

Announcement of results for the fourth quarter and the year ended December 31, 2012

HONG KONG - Sunshine (**HKEX: 2012; TSX: SUO**) today announced its financial results for the fourth quarter and year ended December 31, 2012. The Corporation's consolidated financial statements, notes to the consolidated financial statements, Management's Discussion and Analysis and Annual Information Form have been filed on SEDAR (www.sedar.com), with the SEHK at (www.hkexnews.hk) and are available on the Corporation's website (www.sunshineoilsands.com). The Annual Information Form includes the Corporation's reserves and resource data at an effective date of December 31, 2012 as evaluated by GLJ Petroleum Consultants Ltd. and DeGolyer and MacNaughton Canada Limited and prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Sunshine's annual general meeting of shareholders will be held on May 7, 2013 in Hong Kong. All figures are in Canadian dollars unless otherwise stated.

Highlights

- On March 1, 2012, Sunshine completed its IPO and listing on the Stock Exchange of Hong Kong Limited (the "SEHK"), raising approximately \$570 million under the listing symbol of "2012".
 - Through the IPO, the Corporation secured significant investment from cornerstone investors such as Premium Investment Corporation, a wholly-owned subsidiary of China Investment Corporation, EIG Management Company and Sinopec Century Bright Capital Investment Limited, a wholly-owned subsidiary of China Petrochemical Corporation, otherwise known as the Sinopec Group.
- Sunshine significantly increased its resource values and volumes in its independently evaluated reserves and resource estimates as at December 31, 2012; total best estimate contingent resource assignment of over 5 billion barrels representing a 2 billion barrel (65%) increase from November 30, 2011.
- The Corporation signed a Memorandum of Understanding for strategic cooperation with Sinopec International Petroleum Exploration and Production Corporation.
 - In October, Sunshine secured a \$200 million credit facility with a syndicate of financial institutions. This credit facility was oversubscribed and was expanded from its original size due to strong interest.
 - The Corporation listed on the Toronto Stock Exchange ("TSX") on November 16, 2012 under the symbol of "SUO".
 - Operationally, the Corporation obtained approval for its first Steam Assisted Gravity Drainage ("SAGD") 10,000 barrel per day project at West Ells and commenced civil construction early in the year and mechanical construction in the summer at the West Ells site.
 - At West Ells, the Corporation initiated and progressed substantial development of the West Ells project, which is intended to start steaming in the third quarter of 2013.
 - In relation to other core areas, Sunshine continues to advance through the regulatory process for its Thickwood and Legend projects with approvals expected in the first half of 2013 and later in 2013, respectively, for an initial 10,000 barrels per day project in each area.

Message to Shareholders

2012 was a year of tremendous success for Sunshine Oilsands Ltd. (“Sunshine” or the “Corporation”). We established our position in the capital markets with the closing of a significant IPO and listing on the Stock Exchange of Hong Kong and the Toronto Stock Exchange. We grew our resource and reserves base with large additions and we grew our operational presence materially. All of these accomplishments centered around building shareholder value by moving ahead with the development of our enormous clastic and carbonate resource base in the Athabasca region of Alberta. We view these achievements to be just the beginning for developing our long term production potential aimed at increasing shareholder value.

Capital Market

We started off the year with the successful completion of our Hong Kong initial public offering (“IPO”) which saw us raise HK\$4.5 billion (approximately \$570 million). We secured significant investments from several prominent cornerstone investors. Our IPO was one of the largest IPOs for the Stock Exchange of Hong Kong in 2012. A TSX listing in Canada was obtained in the fourth quarter of the year. This TSX listing facilitates the ability for North American shareholders to buy our stock. In the fourth quarter, we continued to focus on securing funding for our projects and negotiated a credit facility of \$200 million with a syndicate of several major financial institutions led by Alberta Treasury Branches and Bank of China (Canada). The credit facility was oversubscribed and was expanded from its original size due to strong support from financial institutions that included Bank of America, HSBC Bank, Morgan Stanley, Bank of Nova Scotia, Toronto-Dominion Bank, UBS and Industrial and Commercial Bank of China. With the success of these financings, we have secured a financial platform that supports our business plan to begin developing our large oil sands asset base. This initial development includes the completion of the construction of the West Ells project, funding of front end costs for the Thickwood project and regulatory development to expand capacity for these two main projects and a third project at Legend. We believe the opportunity at Sunshine is immense.

Facilitating joint venture discussions with parties who have expressed interest for involvement in the development of our attractive assets remains a top priority for Sunshine. Throughout fiscal 2012, we continued discussions with interested parties, including Sinopec International Petroleum Exploration and Production Corporation with whom we have a Memorandum of Understanding for strategic cooperation. In addition, in January 2013, we signed a Memorandum of Understanding with China Oilfield Services Ltd. (“COSL”). We are working with a syndicate of financial advisors to finalize and implement a debt financing strategy.

Reserve Additions

Our resource base is one of the largest in the Athabasca region, where Sunshine owns 100% of approximately 1.1 million acres of oil sands leases. Our December 31, 2012 Reserves and Resources Reports confirmed significant increases in Best Estimate Contingent Resource recognition in both the clastics and carbonates categories compared to fiscal 2011. Total Petroleum-in-Place (“PIIP”), which is the sum of discovered and undiscovered PIIP components, increased to approximately 70 billion barrels. Clastic Best Estimate Contingent Resource recognition increased by 1.3 billion barrels to 3.7 billion barrels. Carbonate Best Estimate Contingent Resource recognition increased by over 700 million barrels to 1.4 billion barrels. Based on this, we believe our current share price is trading at a significant discount to our PV10% resource and reserves value. Our focus remains on the continuous investment in and development of our massive resource base and, ultimately, production from core project areas in order to translate these opportunities into higher shareholder value.

As we look ahead to our long term plan, we believe opportunities associated with our significant reserves and resource assets are impressive. We have commercial development plans in the West Ells, Thickwood and Legend areas targeting over 300,000 barrels per day of production.

Operational Excellence

With funding in place for West Ells, we broke ground on October 10, 2012 and have made significant progress at the construction site. Several key milestones were successfully achieved including the construction of a 55 km all-season access road, key facility construction and the completion of the drilling of the first pair of horizontal SAGD producer wells. Major equipment has been delivered to site, including heat recovery steam generators and free water knockouts. We kicked off 2013 with the standing of the evaporator tower - meeting schedule and without incident.

We are pleased to report that we are progressing as planned for the West Ells construction schedule. We continue to forecast total capital costs of West Ells at approximately \$468 million, excluding road construction costs. With first steam expected in the third quarter of 2013, Phase 1 West Ells is designed to produce 5,000 barrels per day of bitumen followed by an expansion for an additional 5,000 barrels per day expected to be producing from Phase 2 in 2014. As we ramp up activities to achieve near-term production and cash flow, this will provide the basis to further support increasing recognition of value in Sunshine's assets.

Although our near term focus remains on West Ells, we are working to progress regulatory clearance for the Thickwood and Legend applications. We expect to leverage off the first-phase development and construction of our West Ells project and use this data to improve results and cost efficiencies for future development phases and projects. We will continue through the regulatory approval process in 2013 for the 10,000 barrel per day Thickwood and Legend commercial projects. Expansion plans for significant bitumen production growth will continue, we expect to file expansion applications for West Ells, Thickwood and Legend as rapidly as possible.

Health, Safety and Community

Sunshine remains committed to working with local stakeholders as we build a strong, sound and sustainable organization that is intended to be meaningful in a global context. The Corporation consistently maintains a disciplined approach to health, safety and environmental issues and remains committed to operating in a socially responsible manner with regularly conducted emergency response training, and safety and environmental audits of our operating facilities. We are pleased to report that we had no significant incidents in fiscal 2012.

What's Next

2012 was an exciting year for Sunshine with achievements that set the groundwork for future milestones and accomplishments. 2013 is a pivotal year for Sunshine as we continue to develop West Ells with first steam in the third quarter. By the end of 2013, we should be at or near first production at West Ells and we expect to be moving forward on developments at Thickwood and Legend, with additional commercial applications filed in support of our 300,000 barrel per day growth plan. Sunshine's significant presence in the north-western part of the Athabasca oil sands region represents an opportunity for investors seeking value growth. As a management team, we continue to believe in our execution capabilities and in the experience of our technical team which strives for operational excellence. It is our dedication and commitment to achieve results which will help to deliver on our projects.

Independent Reserves and Resource Assessment, December 31, 2012

Sunshine's oil sands leases in the Athabasca oil sands region of north-eastern Alberta hold an estimated 70 billion barrels of Total Petroleum Initially in Place (PIIP, a sum of discovered and undiscovered PIIP components). Sunshine's Reserves and Resources evaluation completed by the independent evaluators, GLJ Petroleum Consultants Ltd. ("GLJ Report") and DeGolyer and MacNaughton Canada Limited ("D&M Report"), with an effective date of December 31, 2012, confirmed a substantial increase in our recognized reserves and resources from November 30, 2011. Main highlights of the new independently prepared Reserves and Resources Reports include the following:

- 80 million barrels of Proved Reserves with an aggregate pre-tax PV10% value of \$362 million;
- 446 million barrels of Proved Plus Probable Reserves with an aggregate pre-tax PV10% value of \$990 million; and
- 5.1 billion barrels of Best Estimate Contingent Resources with an aggregate pre-tax PV10% value of \$10.3 billion.

The following tables summarize the results of the latest reserves and resources evaluation. In comparison to the November 30, 2011 reserves and resources assessment, the latest evaluation shows a 78 million barrel increase in proved reserves and 27 million barrel increase in proved plus probable reserves. Clastic Best Estimate Contingent resource recognition increased by 1.3 billion barrels to 3.7 billion barrels. Carbonates Best Estimate Contingent resource recognition increased by over 700 million barrels to 1.3 billion barrels. The December 31, 2012 total best estimate contingent resource assignment of over 5 billion barrels represents a 2 billion barrel (65%) increase from November 30, 2011.

Reserves, effective December 31, 2012

	Reserves					
	Proved		Proved Plus Probable		Proved Plus Probable Plus Possible	
	Gross ¹ (MMbbls)	PV10% (\$MM)	Gross ¹ (MMbbls)	PV10% (\$MM)	Gross ¹ (MMbbls)	PV10% (\$MM)
Total	80	362	446	990	605	1,665

Source: GLJ Report and D&M Report effective December 31, 2012. Values are calculated before tax using the D&M price forecast effective January 3, 2013.

1. "Gross reserves" are the Company's working interest share before deducting royalties and without including any royalty interests of the Company. Net Reserves are the Company's working interest share after deduction of royalty obligations, plus the Company's royalty interests in reserves. The Corporation holds 100% working interest share in all its properties.

Contingent Resources, effective December 31, 2012

	Contingent Resources					
	Low Estimate		Best Estimate		High Estimate	
	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)
Total Clastics	1,748	3,102	3,712	8,069	6,139	16,307
Total Carbonates	463	839	1,345	2,225	5,250	10,060
Combined Total	2,211	3,941	5,057	10,294	11,389	26,367

Source: GLJ Report and D&M Report effective December 31, 2012. Values are calculated before tax using the D&M price forecast effective January 3, 2013.

Summary of Financial Figures

For the fourth quarter of 2012, the Corporation had a net loss of \$9.2 million compared to \$2.5 million for the same period in 2011 and net loss per share of \$0.00 for both periods. For the year ended December 31, 2012, the Corporation had a net loss of \$61.7 million compared to \$68.8 million in 2011 and net loss per share for each respective year of \$0.02 and \$0.05.

As at December 31, the Corporation notes the following selected balance sheet figures:

	2012	2011
	(\$000s)	(\$000s)
Cash and cash equivalents	282,231	84,957
Exploration and evaluation assets	366,668	382,277
Property and equipment	327,971	719
Total liabilities	180,650	327,128
Shareholders' equity	871,076	148,587

FORWARD-LOOKING INFORMATION AND DISCLAIMER

This presentation (the "Presentation") contains forward-looking information relating to, among other things: (a) the future financial performance and objectives of Sunshine Oilsands Ltd. ("Sunshine" or the "Corporation"); and (b) the plans and expectations of the Corporation. Such forward-looking information is subject to various risks, uncertainties and other factors. All statements other than statements and information of historical fact are forward-looking statements. The use of words such as "estimate", "forecast", "expect", "project", "plan", "target", "vision", "goal", "outlook", "may", "will", "should", "believe", "intend", "anticipate", "potential", and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on Sunshine's experience, current beliefs, assumptions, information and perception of historical trends available to Sunshine, and are subject to a variety of risks and uncertainties including, but not limited to those associated with resource definition and expected reserves and contingent and prospective resources estimates, unanticipated costs and expenses, regulatory approval, fluctuating oil and gas prices, expected future production, the ability to access sufficient capital to finance future development and credit risks, changes in Alberta's regulatory framework, including changes to regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws or regulations and the impact thereof and the costs associated with compliance. Although Sunshine believes that the expectations represented by

such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the assumptions and factors discussed in this Presentation are not exhaustive and readers are not to place undue reliance on forward-looking statements as our actual results may differ materially from those expressed or implied. Sunshine disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise, subsequent to the date of this Presentation, except as required under applicable securities legislation. The forward-looking statements speak only as of the date of this announcement and are expressly qualified by these cautionary statements. Readers are cautioned that the foregoing lists are not exhaustive and are made as at the date hereof. For a full discussion of our material risk factors, see "Risk Factors" in our most recent Annual Information Form, "Risk Management" in our current MD&A for the year ended December 31, 2011 and risk factors described in other documents we file from time to time with securities regulatory authorities, all of which are available on the Hong Kong Stock Exchange at www.hkexnews.hk, on the SEDAR website at www.sedar.com or our website at www.sunshineoilsands.com.

About Sunshine Oilsands Ltd.

Sunshine Oilsands Ltd. (the "Corporation" or "Sunshine") is a Calgary based public company, listed on the SEHK since March 1, 2012 and the Toronto Stock Exchange since November 16, 2012. Sunshine is focused on the development of its significant holdings of oil sands leases in the Athabasca oil sands region. The Corporation owns 100% of approximately 1.1 million acres of oil sands leases, equivalent to approximately 7% of the total oil sands leases granted in the Athabasca region. The Corporation is currently focused on executing milestone undertakings in the West Ells project area, where first steam is scheduled for the third quarter of 2013. West Ells has an initial production target rate of 5,000 barrels per day, which will be followed immediately by an approved expansion to a planned production capacity of 10,000 barrels per day in early 2014. In addition to West Ells activities, Sunshine is progressing regulatory approvals for two additional 10,000 barrels per day projects, one in Thickwood and one in Legend.

Sunshine's growth is being led by an experienced team with strong capital markets, corporate governance and capital cost discipline.

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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 year ended December 31, 2012 is dated March 26, 2013. 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, 2012. 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 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.

Overview

Sunshine is one of the largest independent developers of oil sands leases by land holdings in the Athabasca oil sands region, which is located in the Province of Alberta, Canada. Sunshine has secured approximately 0.4 million hectares (approximately 1.1 million acres) of oil sands leases (equal to approximately 7% of all granted leases in this area). Its principal operating regions in the Athabasca area are at West Ells, Thickwood, Legend, Harper, Muskwa, Goffer, Pelican and Portage. Sunshine's properties are grouped into three main asset categories: clastics, carbonates and conventional heavy oil.

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 recoverable resource. The Canadian oil sands comprises the largest single source of supply of oil imported into the United States.

As at December 31, 2012, the Corporation had invested \$694.6 million in oilsands leases, drilling operations, project planning, regulatory application processing and other assets. As at December 31, 2012, the Corporation had \$282.2 million in cash and cash equivalents (high yield savings and term deposits) and no debt. The Corporation has raised approximately \$1.0 billion in equity proceeds, including the proceeds from its IPO in March 2012. Through equity

financings, the Corporation has secured significant investments from Premium Investment Corporation (a wholly-owned subsidiary of China Investment Corporation), EIG Management Company and Sinopec Century Bright Capital Investment Limited, a wholly-owned subsidiary of China Petrochemical Corporation, otherwise known as the Sinopec Group., Orient International Resources Group Limited, China Life, Bank of China Group and Cross Strait Development Fund.

Operational Update

Sunshine is a major holder and developer of oil sands resources, with approximately 70 billion barrels of total PIIP. Total PIIP is a sum of discovered and undiscovered PIIP components. The Corporation is focused on evaluating and developing these assets with the first phase of a 10,000 barrels per day project, currently under construction at West Ells, scheduled for first steam in the third quarter of 2013. Sunshine is also progressing regulatory approvals for two additional 10,000 barrels per day (total 20,000 barrels per day) projects at Thickwood and Legend. Approvals are expected in the first half of 2013 and later in 2013, respectively. With approximately 5.1 billion barrels of contingent resources and 446 million barrels of proved plus probable ("2P") reserves, the Corporation has significant commercial development potential.

West Ells Development

As at December 31, 2012, significant progress was achieved on Sunshine's Steam Assisted Gravity Drainage ("SAGD") project at West Ells. Sunshine completed the West Ells access and spur roads, built a pipeway corridor to provide pipeline and road access from the Central Processing Facility ("CPF") to the wellpads, constructed the first wellpad, and readied the CPF site for mechanical construction. Approximately 33% of the pilings had been installed with three pile rigs active and onsite. Major equipment, including the heat recovery steam generators, free water knockouts, glycol coolers, and office modules had arrived on site. Furthermore, 82 modules and skids are currently in various fabrication phases. A production drilling rig was mobilized with Sunshine successfully drilling its first horizontal SAGD producer well pair in December. As at year end, of the 16 SAGD well pairs planned for the project, Sunshine successfully drilled ten surface, four intermediate, and two horizontal sections. Seven of eleven observation wells have been drilled.

\$202.7 million has been incurred for West Ells equipment, engineering, construction, civil works, drilling, completions and other project related expenditures. At year end, civil construction of the CPF was approximately 40% finished, with facilities engineering approximately 75% complete. With respect to capital commitments, 100% of the long lead equipment has been ordered and approximately 80% of the secondary long lead equipment was procured. Also, all Phase 1 downhole completion and production equipment has been ordered.

As at the date of this MD&A, Sunshine continues to achieve several West Ells milestones. In relation to construction progress, this includes the standing of the West Ells' Phase 1 evaporator tower without incident, delivery of the Phase 1 steam generator and installation of the site office. With respect to drilling, all eleven observation wells, five SAGD wellpairs (ten wells), and six surface sections have been drilled. As of the date of this MD&A, progress increased to approximately, 64% for the pilings, 95% for the civil construction of the CPF, 90% for the facilities general engineering, and 88% for the procurement of secondary long lead equipment.

West Ells remains on schedule and budget with funding fully secured. The total capital cost of West Ells (Phase 1 and Phase 2) remains unchanged at approximately \$468 million, excluding road construction costs. First steam for Phase 1 continues to be expected in the third quarter of 2013 with production to follow by year end or early 2014. West Ells Phase 1 is designed to produce 5,000 barrels per day of bitumen followed by an expansion for an additional 5,000 barrels per day from Phase 2 to be complete in early 2014.

Thickwood and Legend

The Thickwood 10,000 barrels per day SAGD project continued to progress through the regulatory approval process as expected, including full completion of two rounds of supplemental information requests and responses in 2012. Full regulatory approval of the project is expected in the first half of 2013. In addition, the Corporation has advanced Front End Engineering Design ("FEED") activities for the project. The Corporation is finishing environmental fieldwork and analysis to support planned significant commercial expansions in both areas.

The Legend 10,000 barrels per day SAGD project also progressed in the regulatory approval process, with responses to the initial round of supplemental information requests submitted in the third quarter of 2012. Full regulatory approval of this project is anticipated later in 2013.

Cold flow assets

The Corporation continued with the evaluation of development of its cold flow heavy oil assets. At the Muskwa project, cumulative production for the year ended December 31, 2012 was approximately 215,000 barrels, representing an average of approximately 590 barrels per day. As at December 31, 2012, 39 development wells drilled from five surface pads have produced a cumulative total of approximately 352,000 barrels since project inception.

During 2012, the Corporation continued production optimization activities at the Muskwa project through evaluation of new technologies for enhancing production and recovery, including sand clean outs, wellbore stimulation and downhole heating. In the third quarter, Sunshine received regulatory approval for the installation of downhole electrical heating at Muskwa. Since year end, field work was completed for the installation of a downhole heater in a horizontal wellbore and initial heating commenced. The Corporation is in the early stages of optimization and analysis of this process. In addition, the Corporation commenced construction of its planned pad extension to accommodate future drilling. Since Muskwa remains in the resource definition stage, the Corporation capitalizes all costs incurred to date, including operating costs net of revenues, for financial reporting purposes.

Alberta Government Initiatives

On August 22, 2012 the Government of Alberta approved the LARP to conserve land for conservation, tourism and recreation. The implementation of, and compliance with the terms of, the LARP may adversely impact Sunshine's current properties in northern Alberta, as there is the potential for specific oil sands leases to be cancelled by the government. The Corporation is currently evaluating its options including approaching the Government of Alberta for compensation of all expenditures incurred plus loss of future opportunities. The impact of LARP on the Corporation's land holdings and exploration plans is yet to be determined.

Non-IFRS Financial Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as cash flow from operations. 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 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. The data is intended to provide additional information and should not be considered in isolation or as substitute for measures of performances prepared in accordance with IFRS. The non-IFRS measure of cash flow from operations can be reconciled to net cash provided by operating activities, as determined in accordance with IFRS.

Operational and Financial Highlights

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

	For the three months ended December 31,		For the year ended December 31,	
	2012	2011	2012	2011
<i>Financial Highlights</i>	(\$000)	(\$000)	(\$000)	(\$000)
Other income	\$ 1,032	\$ 257	\$ 12,228	\$ 1,625
Expensed portion of IPO costs	-	1,852	16,258	3,547
Fair value of warrants	-	(11,791)	-	20,298
Finance costs	2,859	7,029	20,237	25,470
Net loss	9,196	2,473	61,728	67,392
Basic and diluted loss per share	0.00	0.00	0.02	0.05
Expenditures on exploration and evaluation	64,832	31,622	229,382	155,561

For the year ended December 31, 2012, the Corporation had a net loss of \$61.7 million compared to a net loss of \$67.4 million in 2011. The net loss in the year ended December 31, 2012 was primarily attributable to general administration costs of \$23.8 million, finance costs of \$20.2 million, the expensed portion of IPO costs of \$16.3 million and \$13.4 million for share-based payment expense compared to finance costs of \$25.5 million, fair value loss on warrants of \$20.3 million, general administration costs and legal expense of \$12.8 million, \$8.1 million for share-based payment expense and expensed portion of IPO costs of \$3.5 million for the same period in 2011.

The Corporation recognized a net loss for the three months ended December 31, 2012 of \$9.2 million compared to \$2.5 million for the same period in 2011. For the three month period ended December 31, 2012, the net loss was primarily attributable to general administration costs and legal expense of \$4.6 million, which included \$2.0 million for salaries, consulting and benefits and \$2.6 million for legal, audit, rent and other costs for travel and related annual filing and printing costs, share-based payments of \$2.7 million and finance costs of \$2.9 million partially offset by interest income of \$1.0 million. For the same period in 2011, the net loss was attributable to \$7.0 million of finance costs related primarily to the share repurchase obligation, \$3.3 million in general administration costs, which included \$1.7 million for salaries, consulting and benefits and \$1.6 million of legal, audit, rent and other costs for travel costs, \$2.3 million of share-based payments, and \$1.9 million for expensed portion of IPO costs offset by \$11.8 million mark to market gain on warrants and \$0.3 million of interest income.

As at December 31,	2012	2011
<i>Financial Position</i>	(\$000)	(\$000)
Cash and cash equivalents	\$ 282,231	\$ 84,957
Total assets	979,726	475,714
Total liabilities	108,650	327,127

The Corporation had a combined cash and short-term investment balance of \$282.2 million as at December 31, 2012 compared to a combined cash and short-term investment balance of \$85.0 million as at December 31, 2011. For the year ended December 31, 2012, the increase in these balances was due primarily to gross proceeds received from the Corporation's IPO of approximately \$570 million (HK\$4.5 billion) for the issuance of 923,299,500 shares, partially offset by approximately \$230 million in capital investments, \$68.9 million for warrant settlement costs, \$38.7 million for share repurchases and \$25.1 million for share issue costs related to the IPO.

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

	For the three months ended December 31,		For the year ended December 31,	
	2012	2011	2012	2011
	(\$000)	(\$000)	(\$000)	(\$000)
Loss before income taxes	\$ (9,196)	\$ (2,460)	\$ (61,728)	\$ (68,760)
Addback/Deduct				
Expense portion of IPO costs	-	1,852	10,863	3,547
Fair value adjustment on warrants	-	(11,791)	-	20,298
Finance costs	2,859	7,029	20,237	25,470
Unrealized foreign exchange loss/(gain)	72	-	21	-
Interest income	(987)	(257)	(3,229)	(1,625)
Depreciation	91	53	290	186
Share-based payment expense	2,705	2,277	13,384	8,075
Cash flow used in operations	\$ (4,456)	\$ (3,297)	\$ (20,162)	\$ (12,809)

This non-IFRS measurement is intended to provide additional information and should not be considered in isolation or as substitute for measures of performance prepared in accordance with IFRS. The above table reconciles the non-IFRS measurements "Cash flow used in operations" from "Net loss for the period", the nearest IFRS measure. Cash flow used in operations is defined as net loss as reported, addback or deduct non-cash items including expensed portion of IPO costs, fair value adjustment on warrants, finance costs, share-based payments, unrealized portion of foreign exchange adjustments, depreciation and interest income.

Cash flow used in operations in the year ended December 31, 2012 totaled \$20.2 million compared to \$12.8 million for the same period in 2011. For the three month period ended December 31, 2012, cash flow used in operations totaled \$4.5 million compared to \$3.3 million for the last quarter of 2011. The change resulted from higher general administration costs in 2012 compared to 2011. Due to the nature of its business and stage of development, cash flow used in operations is a small portion of the Corporation's total cash needs and expenditures.

Summary of Quarterly Results

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

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
(\$000 except for per share amounts)								
Other income	\$ 1,032	\$ 1,142	\$ 2,992	\$ 7,061	\$ 257	\$ 425	\$ 516	\$ 426
Expense portion of IPO costs	-	-	44	16,213	1,852	1,695	-	-
Fair value adjustment on warrants	-	-	-	-	(11,791)	(2,440)	(2,255)	36,784
Finance costs	2,859	215	66	17,098	7,029	6,278	46,661	(34,498)
Net loss for the period	9,196	15,531	4,673	32,331	2,473	10,229	8,481	46,209
Loss per share	0.00	0.00	-	0.02	0.01	0.01	0.03	0.00
Exploration and evaluation expenditures	64,832	32,305	89,949	42,296	31,622	17,906	62,407	43,626

Results of Operations

Finance Expense

	For the three months ended December 31,		For the year ended December 31,	
	2012	2011	2012	2011
	(\$000)	(\$000)	(\$000)	(\$000)
Finance cost on share repurchase obligation	\$ -	\$ 9,620	\$ 5,864	\$ 32,132
Expensed portion of share issue costs	-	-	13,012	-
Finance cost on related party loan	-	-	266	-
Finance costs on credit facility	2,449	-	2,449	-
Unwinding of discounts on provisions	410	36	761	129
Less: Amounts capitalized in exploration and evaluation assets	-	(2,627)	(2,115)	(6,791)
	\$ 2,859	\$ 7,029	\$ 20,237	\$ 25,470

Finance expense for the three month period ended December 31, 2012 decreased by \$4.1 million to \$2.9 million from \$7.0 million for the same period in 2011, primarily due to the extinguishment of the share repurchase obligation. For the three months ended December 31, 2011, the Corporation recognized \$9.6 million in total for non-cash finance costs on the share repurchase obligation, less \$2.6 million which was capitalized, resulting in net finance expense of \$7.0 million. For the three months ended December 31, 2012, the Corporation recorded \$2.5 million in finance fees and costs in relation to the closing of the credit facility. For the three months ended December 31, 2012, the Corporation recorded \$0.4 million in accretion for its decommissioning liability compared to \$36,000 for the same period in 2011.

For the year ended December 31, 2012, total finance expense decreased by \$5.3 million to \$20.2 million from \$25.5 million expensed in the same period in 2011, primarily due to non-cash finance costs attributable to the share repurchase obligation, which were settled upon the SEHK listing. For the year ended December 31, 2012, the Corporation recorded finance costs of \$5.9 million in total on the share repurchase obligation and capitalized \$2.1 million to exploration and evaluation assets resulting in net finance expense of \$3.8 million compared to finance costs of \$32.1 million, offset by \$6.8 million capitalized and net finance expense (in respect of the share repurchase obligation) of \$25.3 million, respectively, for 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 a Qualifying IPO by 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 year ended December 31, 2012.

During the year ended December 31, 2012, the Corporation drew and repaid \$30.0 million under an available \$100.0 million credit facility agreement (the "Loan Agreement") with a significant shareholder of the Corporation. The Loan Agreement 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 year ended December 31, 2012, total non-cash 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. Refer to Section: "*Transactions with related parties*" for terms and conditions of the Loan Agreement

In October 2012, the Corporation entered into a \$200 million credit facility agreement (the "Credit Facility") with a group of financial institutions. In conjunction with the closing of the Credit Facility, the Corporation agreed to pay related financing costs which totaled \$2.0 million and incurred \$0.5 million in related expenses.

Accretion for the decommissioning obligation was \$0.7 million for the year ended December 31, 2012 compared to \$0.1 million in the same period 2011.

General and Administrative Costs

Three months ended December 31,								
2012			2011					
(\$000)			(\$000)					
	General and Administrative Costs	Capitalized portion	Expensed	General and Administrative Costs	Capitalized portion	Expensed		
Salaries, consulting and benefits	\$ 3,825	\$ 1,875	\$ 1,950	\$ 3,351	\$ 1,650	\$ 1,701		
Rent	529	318	211	586	309	277		
Other	1,750	285	1,465	1,558	383	1,175		
	\$ 6,104	\$ 2,478	\$ 3,626	\$ 5,495	\$ 2,342	\$ 3,153		

Year ended December 31,								
2012			2011					
(\$000)			(\$000)					
	General and Administrative Costs	Capitalized portion	Expensed	General and Administrative Costs	Capitalized portion	Expensed		
Salaries, consulting and benefits	\$ 24,290	\$ 7,951	\$ 16,339	\$ 13,631	\$ 6,300	\$ 7,331		
Rent	2,108	1,164	944	1,288	677	611		
Other	5,981	1,046	4,935	4,473	858	3,615		
	\$ 32,379	\$ 10,161	\$ 22,218	\$ 19,392	\$ 7,835	\$ 11,557		

General and administrative expense, which includes salaries, consulting and benefits, rent, and other general administrative costs, for the three month period ended December 31, 2012 increased by \$0.4 million to \$3.6 million compared to \$3.2 million for the same period in 2011. For the year ended December 31, 2012, these increased by \$10.6 million to \$22.2 million compared with \$11.6 million for the same period in 2011.

The increase in expense is primarily the result of bonus payments, and overall growth in Sunshine's professional staff and office costs to support the operation and development of our oil sands assets. The Corporation's headcount (including employees and consultants) grew from 122 as of December 31, 2011 to 139 as at December 31, 2012. During the three months and year ended December 31, 2012, the Corporation capitalized salaries, consulting and benefits, rent and other general administrative costs related to capital investment of \$2.5 million and \$10.2 million, respectively, compared to \$2.3 million and \$7.8 million, respectively, for the same periods in 2011.

Share-based payments

For the three months ended December 31,								
2012			2011					
	General and Administrative Costs	Capitalized portion	Expensed	General and Administrative Costs	Capitalized portion	Expensed		
Share-based payment expense - \$000	\$ 4,275	\$ 1,570	\$ 2,705	\$ 3,847	\$ 1,570	\$ 2,277		

For the year ended December 31,								
2012			2011					
	General and Administrative Costs	Capitalized portion	Expensed	General and Administrative Costs	Capitalized portion	Expensed		
Share-based payment expense - \$000	\$ 20,445	\$ 7,061	\$ 13,384	\$ 15,230	\$ 7,155	\$ 8,075		

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 months and year ended December 31, 2012 was \$2.7 million and \$13.4 million, respectively, compared to \$2.3 million and \$8.1 million for the three months and year ended December

31, 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 during the year ended December 31, 2012. The Corporation capitalizes a portion of the share-based compensation expense using the same methodology associated with capitalized salaries and benefits. For the three months and year ended December 31, 2012, the Corporation capitalized \$1.6 million and \$7.1 million, respectively, of share-based payments to exploration and evaluation assets compared to \$1.6 million and \$7.2 million, respectively, for the same periods in 2011.

Other Income

	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
	(\$000)	(\$000)	(\$000)	(\$000)
Foreign exchange gain - realized	\$ 118	\$ -	\$ 9,020	\$ -
Foreign exchange gain - unrealized	(72)	-	(21)	-
Interest income from term deposits	986	257	3,229	1,625
	\$ 1,032	\$ 257	\$ 12,228	\$ 1,625

Other income for the three months and year ended December 31, 2012 increased by \$0.7 million to \$1.0 million compared to \$0.3 million and increased by \$10.6 million to \$12.2 million compared to \$1.6 million, respectively, for the same periods in 2011. For the year ended December 31, 2012, the increase was primarily due to earned interest income of \$3.2 million and a foreign exchange gain of \$9.0 million. For the three months ended December 31, 2012, \$1.0 million was earned in interest income compared to \$0.3 million for the same period in 2011. Interest income will decline as cash balances are invested in capital projects.

Fair Value Adjustment on Warrants

For the three month period ended December 31, 2011, a mark to market gain on warrants of \$11.8 million was recognized compared to \$Nil for the same period of 2012. A mark to market loss on warrants of \$20.3 million for the year ended December 31, 2011 was recorded compared to \$Nil for the year ended December 31, 2012. All warrants were repurchased and cancelled on January 4, 2012.

Expensed portion of IPO costs

The expensed portion of IPO costs was \$Nil and \$16.3 million in the three months ended and year ended December 31, 2012, respectively, compared to \$1.9 million and \$3.5 million for the three months and year ended December 31, 2011, respectively. For 2012, the expense is comprised of \$5.3 million for bonus payments and \$11.0 million for IPO related costs such as legal and audit fees.

Depreciation

Depreciation expense increased by approximately \$38,000 to approximately \$91,000 for the three month period ended December 31, 2012. This compared to depreciation expense of approximately \$51,000 for the same period in 2011. For the year ended December 31, 2012, depreciation expense was \$0.3 million compared to \$0.2 million for the same period in 2011. The increase was primarily due to increased computer equipment purchases.

Income Taxes

The Corporation's deferred income taxes for both the three months and year ended December 31, 2012 were \$Nil compared to approximately \$13,000 and \$1.4 million for the same periods in 2011, respectively. The change in deferred income taxes 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. At December 31, 2012, the Corporation had total tax deductions of \$746.4 million, with unrecognized tax losses starting to expire in 2027.

Liquidity and Capital Resources¹

	2012	2011
	(\$000)	(\$000)
Working capital (surplus)/deficiency	\$ (215,471)	\$ 7,095
Share repurchase obligation	-	224,362
Shareholders' equity	871,076	148,587
	<u>\$ 655,605</u>	<u>\$ 380,044</u>

1. Excludes \$200 million Credit Facility

Working capital surplus of \$215.5 million is comprised of \$282.2 million of cash and cash equivalents, offset by a non-cash working capital deficiency of \$66.7 million. 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.

During the year ended December 31, 2012, the Corporation signed a \$200 million Credit Facility with a syndicate of financial institutions. The amount available for drawdown is subject to a sufficient funding requirement which is defined as having on-hand funding equal to or exceeding the sum of the remaining costs to complete the Phase 1 and Phase 2 West Ells project plus a contingency amount equal to 20% of remaining costs to complete. In conjunction with the closing of the Credit Facility, the Corporation terminated its \$100 million loan agreement with a significant shareholder. Refer to Section: *"Transactions with related parties"* for terms and conditions of the loan agreement.

Management believes its capital resources and credit facility 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 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 be available.

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 year ended December 31, 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 December 31, 2012 would have been impacted by approximately \$14,000. At December 31, 2012, the Corporation held HK\$8.2 million or \$1.1 million using the December 31, 2012 exchange rate of 7.7905 as cash in the Corporation's Hong Kong bank account.

The Corporation's \$282.2 million in cash and cash equivalents as at December 31, 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 yield savings and 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 affected 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 affected 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 December 31,		For the year ended December 31,	
	2012	2011	2012	2011
	(\$000)	(\$000)	(\$000)	(\$000)
Cash generated by/(used in) operating activities	\$ (3,570)	\$ (3,467)	\$ (18,581)	\$ (13,779)
Cash used in investing activities	(64,113)	(31,513)	(226,893)	(154,366)
Cash (used in)/generated by financing	(5,659)	(2,646)	442,769	211,562
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(72)	-	(21)	-
(Decrease)/increase in cash and cash equivalents	(73,414)	(37,626)	197,274	43,417
Cash and cash equivalents, beginning of period	355,645	122,583	84,957	41,540
Cash and cash equivalents, end of period	\$ 282,231	\$ 84,957	\$ 282,231	\$ 84,957

Operating Activities

Cash flow used in operating activities was \$3.6 million for the three months ended December 31, 2012 compared to \$3.5 million for the same period 2011 due to movements in working capital of \$0.9 million for the fourth quarter of 2012 compared to \$0.2 million for the same period 2011.

During the year ended December 31, 2012, cash flow used from operating activities increased by \$4.8 million to \$18.6 million compared to \$13.8 million for the same period in 2011. The change was due to higher general administration costs related to bonus payments and movements in working capital of \$1.6 million for the year ended December 31, 2012 compared to \$0.9 million for the same period in 2011.

Investing Activities

Net cash used for investing activities for the three months and year ended December 31, 2012 increased to \$64.1 million and \$226.9 million, respectively, compared to \$31.5 million and \$154.4 million, respectively, for the same periods in 2011. This increase for the three months and year ended December 31, 2012, of \$32.6 million and \$72.5 million, respectively, is attributed to the completion of the 2011/2012 capital program investing activities for evaluation assets and includes changes in non-cash working capital balances period over period. The changes in non-cash working capital balances were \$17.8 million and \$37.4 million compared to \$37.4 million and \$10.8 million for the three months and year ended December 31, 2012 and 2011, respectively. The remainder of the increase in investing activities relates to interest income earned of \$1.0 million and \$3.2 million for the three months ended and year ended December 31, 2012 compared to \$0.3 million and \$1.6 million earned in the same periods in 2011.

Capital investment for the capital program 2011/2012 focused on initial construction, procurement of major equipment and related capital costs for the first phase of the West Ells project, the completion of construction of the West Ells access road, resource delineation and expenditures related to regulatory advancement for projects at Thickwood and Legend.

Financing Activities

Financing activities for the three month period ended December 31, 2012 consisted of the repurchase of 18.2 million common shares at a weighted average cost of \$0.39 per common share, for total consideration of \$7.1 million, offset by \$3.6 million received for stock option exercises. In the fourth quarter 2012, the Corporation incurred \$2.0 million in finance costs with respect to the closing of the Credit Facility and \$0.2 million was paid in relation to the Corporation's TSX listing. Net cash used from financing activities for the three month period ended December 31, 2012 was \$5.7 million.

Financing activities for the year ended December 31, 2012 consisted of gross proceeds received from the IPO approximating \$577.9 million, including \$8.1 million for stock option exercises. Net cash provided by financing activities for the year ended December 31, 2012, also included using \$68.9 million for the payment to repurchase and

cancel all warrants issued and outstanding, \$38.7 million for the repurchase of common shares and \$26.0 million for share issue costs, which included a payment of \$0.4 million for an IPO advisory fee. In addition, the Corporation paid \$2.5 million in finance fees and expenses for the closing of the Credit Facility with a syndicate of financial institutions.

During the first quarter of 2012, the Corporation drew and repaid \$30.0 million on its \$100 million loan agreement held with Orient International Resources Group Limited. In the fourth quarter 2012, the Corporation signed a \$200 million Credit Facility with a syndicate of financial institutions. The Credit Facility matures on October 10, 2013 and is extendable at the lenders' discretion. The Credit Facility bears interest at a floating rate based on Canadian dollar prime rate, US dollar base rate, bankers' acceptances or LIBOR plus a credit spread above the reference rate. Undrawn amounts are subject to a standby fee of 100 basis points per annum. The Credit Facility is secured by all assets of the Corporation. The amount available for drawdown is subject to a sufficient funding requirement which is defined as having on-hand funding equal to or exceeding the sum of the remaining costs to complete the Phase 1 and Phase 2 West Ells project plus a contingency amount equal to 20% of remaining costs to complete. The Credit Facility is subject to various non-financial covenants including, amount other things, restrictions on issuing debt, making investments or loans, paying dividends, altering the nature of the business and undertaking corporate transactions. The Credit Facility also has certain financial covenants.

In conjunction with the closing of the above Credit Facility, the Corporation terminated its \$100 million loan agreement with a significant shareholder (Orient Group). Refer to Section: *"Transactions with related parties"* for terms and conditions of the loan agreement.

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 December 31, 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
	(\$ 000)	(\$ 000)	(\$ 000)
Drilling and other equipment and contracts	\$ 173,815	\$ -	-
Lease rentals	1,840	7,225	10,593
Office leases	2,155	8,494	2,278
	<u>\$ 177,810</u>	<u>\$ 15,719</u>	<u>\$ 12,871</u>

Shares Outstanding

As at March 26, 2013, the Corporation had the following shares issued and outstanding:

Class "A" common shares	2,865,138,161
Class "G" preferred shares	58,890,000
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 and its affiliated companies ("Orient Group") is a private group of companies controlled by Mr. Hok Ming Tseung, a significant shareholder and director of the Corporation. At December 31, 2012, Orient Group owned approximately 9.9% of the outstanding shares of the Corporation. In 2010 through to 2012, Orient Group provided a credit facility agreement to the Corporation and provided 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 Inc.") is private company wholly owned by one of Sunshine's Co-Chairmen of the Board of Directors and an Executive Director. 1226591 Inc. provides overall operational services to the Corporation.
- McCarthy Tetrault LLP 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 Group, 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, equal to 0.75% of the number of common shares issued and outstanding, could at the time of the initial filing of an IPO 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 had a January 20, 2013 expiry date. 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, Orient Group, is a company which is controlled by a director who is a principal of a significant shareholder of the Corporation.

Related Party Loan Agreement

In 2011, the Corporation entered into a Loan Agreement with Orient Group, a non-arm's length lender. Amounts drawn on the Loan Agreement were 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. For the three months and year ended December 31, 2012, total non-cash 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 Loan Agreement, \$266,090 was recorded to Other Reserve due to the related party nature of this transaction. In conjunction with the closing of the Credit Facility (held by with a syndicate of financial institutions), the Corporation terminated its Loan Agreement.

The Corporation incurred consulting fees, share-based compensation and performance related incentive payments to MJH Services totaling \$6.6 million for the year ended December 31, 2012 compared to \$2.5 million for the same period in 2011.

The Corporation incurred consulting fees, share-based compensation and performance related incentive payments to 1226591 Inc. totaling \$6.6 million for the year ended December 31, 2012 compared to \$2.5 million for the same period in 2011.

The Corporation entered into the following trading transactions with McCarthy Tetrault LLP:

	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
	(\$000)	(\$000)	(\$000)	(\$000)
Other assets ¹	\$ -	\$ 244	\$ -	\$ 867
Share issue costs	-	-	271	115
	<u>\$ -</u>	<u>\$ 244</u>	<u>\$ 271</u>	<u>\$ 982</u>
Legal expense	\$ 270	\$ 115	\$ 398	\$ 291
Expense portion of IPO costs	-	-	551	-
	<u>\$ 270</u>	<u>\$ 115</u>	<u>\$ 949</u>	<u>\$ 291</u>

1. Other assets consisted of IPO financing costs before allocation expense.

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

	2012	2011
	(\$ 000)	(\$ 000)
Legal	\$ 136	\$ 363

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 December 31, 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 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.

Share-based payments

The Corporation recognises compensation expense on options, preferred shares and stock appreciation rights ("SARs"), if 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.

Deferred income taxes

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

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the 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. Many of these risks are beyond the control of the Corporation. These risk factors are described in the 2012

annual information form available at the Corporation's website, www.sunshineoilsands.com, the website of the SEHK, www.hkexnews.hk and at www.sedar.com.

Disclosure Controls and Procedures

The Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Corporation is made known to the Corporation's CEO and CFO by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's disclosure controls and procedures at the financial year end of the company and have concluded that the Corporation's disclosure controls and procedures are effective at the financial year end of the company for the foregoing purposes. 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.

Internal Controls Over Financial Reporting

The CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Corporation's internal controls over financial reporting at the financial year end of the company and concluded that the Corporation's internal controls over financial reporting are effective at the financial year end of the company for the foregoing purpose.

No material changes in the Corporation's internal controls over financial reporting were identified during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting. It should be noted that a control system, including the Corporation's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

Additional Stock Exchange Information

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

Code of Corporate Governance Practice (the "Code")

The 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.

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 year ended December 31, 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\$4.5 billion (approximately \$570 million). Pursuant to this event, the Corporation recognized an advisory fee owing for HK\$69.4 million (approximately \$8.8 million). The obligation was settled through the issuance of 13,566,395 common shares for \$8.4 million and cash paid of \$0.4 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. In addition, the Corporation’s share repurchase obligation was extinguished and 433,884,300 common shares were reclassified to shareholders’ equity.

During the three month period and year ended December 31, 2012, the Corporation repurchased 18,150,000 and 85,091,500 common shares at a weighted average price per common share of HK\$3.06 (\$0.39) and HK\$3.43 (\$0.46), for total consideration of \$7.1 million and \$38.7 million, respectively. Of the total amount repurchased, all common shares were cancelled as at December 31, 2012. Pursuant to Rule 10.06 4(b) of the Listing Rules for the Hong Kong Stock Exchange, these repurchases can be broken down as follows: 18,150,000 common shares repurchased at a weighted average price per common share of HK\$3.06 (\$0.39) in October, 43,022,000 common shares repurchased at a weighted average price per common share of HK\$3.11 (\$0.39) in September and 23,919,500 common shares repurchased at a weighted average price per common share of HK\$4.65 (\$0.62) in June.

During the three months ended and year ended December 31, 2012, the Corporation issued 414,000 and 1,450,800 common shares for \$450 and \$1,850, respectively, upon conversion of Class “G” preferred shares.

During the three months ended and year ended December 31, 2012, the Corporation issued 23,459,000 and 74,432,426 common shares for \$3.6 million and \$8.1 million, respectively, upon exercise of pre-IPO stock options. In connection with this issuance, \$1.4 million and \$3.1 million, respectively, was transferred from share option reserve to Class “A” common shares.

Class “G” Preferred Shares

For the three months ended and year ended December 31, 2012, the Corporation issued Nil and 830,000 Class “G” preferred shares, respectively. During the year ended December 31, 2012, 900,000 and 3,700,000 Class “G” Preferred Shares were converted to Class “A” common shares for \$450 and \$1,850, respectively.

Class “H” Preferred Shares

For the year ended December 31, 2012, the Corporation issued Nil Class “H” preferred shares. For the year ended December 31, 2012, no Class “H” preferred shares were converted to Class “A” common shares.

Pre-IPO Stock Option Plan

For the three months and year ended December 31, 2012, the Corporation granted Nil and 1,730,000 Pre-IPO stock options at a weighted average exercise price of \$Nil and \$0.48 per stock option, respectively. During the three month period and year ended December 31, 2012, there were 23,459,000 and 74,432,426 Pre-IPO stock options, respectively, exercised at a weighted average exercise price of \$0.15 and \$0.11 per stock option, respectively. There

were also 2,947,026 and 5,294,514 forfeitures of Pre-IPO stock options during the three months ended and year ended December 31, 2012, respectively.

Post-IPO Stock Option Plan

On January 26, 2012, the Post-IPO Stock Option Plan (the "Post-IPO Stock Option Plan") 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 IPO closing and SEHK listing on 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. For the year ended December 31, 2012, 35,824,908 and 68,464,338 Post-IPO stock options, respectively, were issued under the Post-IPO Stock Option Plan. During the year ended December 31, 2012, there were Nil Post-IPO stock options exercised. There were also 699,416 and 920,250 forfeitures of Post-IPO stock options during the three month period and year ended December 31, 2012, respectively.

Summary of Financial Statements and Notes

The Board of Directors of the Corporation is pleased to announce the results of the Corporation and its wholly-owned subsidiaries for the year ended December 31, 2012 together with comparative figures for the corresponding period in 2011 as follows:

Consolidated Statements of Financial Position

	As at December 31,	
	2012	2011
	(\$000)	(\$000)
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 282,231	\$ 84,957
Trade and other receivables	2,155	3,583
Prepaid expenses and deposits	701	798
	<u>285,087</u>	<u>89,338</u>
<i>Non-Current Assets</i>		
Exploration and evaluation	366,668	382,277
Property and equipment	327,971	719
Other assets	-	3,380
	<u>694,639</u>	<u>386,376</u>
	<u>\$ 979,726</u>	<u>\$ 475,714</u>
Liabilities and Shareholders' Equity		
<i>Current Liabilities</i>		
Trade and other payables	\$ 68,821	\$ 33,365
Provisions for decommissioning obligation	795	68
Fair value of warrants	-	63,000
	<u>69,616</u>	<u>96,433</u>
<i>Non-Current Liabilities</i>		
Share repurchase obligation	-	224,362
Provisions for decommissioning obligation	39,034	6,332
	<u>39,034</u>	<u>230,694</u>
	<u>108,650</u>	<u>327,127</u>
Net current (liabilities)/assets	<u>215,471</u>	<u>(7,095)</u>
Total assets less current liabilities	<u>910,110</u>	<u>379,281</u>
Shareholders' Equity		
Share capital	991,798	219,174
Reserve for share based compensation	47,395	30,074
Deficit	(168,117)	(100,661)
	<u>871,076</u>	<u>148,587</u>
	<u>\$ 979,726</u>	<u>\$ 475,714</u>

Consolidated Statements of Operations and Comprehensive Loss

(\$000 except for per share amounts)	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Other income				
Foreign exchange gain	\$ 45	\$ -	\$ 8,999	\$ -
Interest income	987	257	3,229	1,625
	1,032	257	12,228	1,625
Salaries, consulting and benefits	1,950	1,701	16,339	7,331
Rent	211	277	944	611
Legal and audit	947	144	1,569	1,252
Depreciation	91	53	290	186
Share-based payment expense	2,705	2,277	13,384	8,075
Expense portion of IPO costs	-	1,852	16,258	3,547
Fair value adjustment on warrants	-	(11,791)	-	20,298
Finance costs	2,859	7,029	20,237	25,470
Other	1,465	1,175	4,935	3,615
	10,228	2,717	73,956	70,385
Loss before income taxes	9,196	2,460	61,728	68,760
Income tax recovery	-	(13)	-	1,368
Net loss and comprehensive loss for the year attributable to equity holders of the Corporation	\$ 9,196	\$ 2,473	\$ 61,728	\$ 67,392
Loss per share				
Basic and diluted	\$ 0.00	\$ 0.00	\$ 0.02	\$ 0.05

Notes

1. Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Board. The condensed 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 SEHK.

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

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

The consolidated financial statements incorporate the financial statements of the Corporation and the Corporation's wholly owned subsidiaries, Fern Energy Ltd. ("Fern") and Sunshine Oilsands (Hong Kong) Ltd. ("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 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.

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 summarized as follows:

	2012		2011	
	(\$000)		(\$000)	
Trade	\$	297	\$	2,048
Accruals and other		387		12
Goods and Services Taxes receivable		1,471		1,523
	\$	2,155	\$	3,583

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:

	2012		2011	
	(\$000)		(\$000)	
0 - 30 days	\$	46	\$	1,260
31 - 60 days		250		781
61 - 90 days		1		7
	\$	297	\$	2,048

As at December 31, 2012, included in the Corporation's trade receivables were debtors with an aggregate carrying amount of \$251 (December 31, 2011 - \$788), 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 and accrued liabilities 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:

	2012		2011	
	(\$000)		(\$000)	
Trade				
0 - 30 days	\$	1,170	\$	7,226
31 - 60 days		3,378		4,067
61 - 90 days		1,005		448
>91 days		1,262		211
		6,815		11,952
Accrued liabilities		62,006		21,413
	\$	68,821	\$	33,365

5. Dividends

The Corporation has not declared or paid any dividends in respect of the year ended December 31, 2012 (December 31, 2011 - \$Nil).

6. Income Taxes

	Opening Balance	Recognised in loss	Recognised in OCI	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
December 31, 2012								
Temporary differences								
Exploration and evaluation	\$ (32,593)	(14,099)	-	-	-	-	(9,395)	\$ (56,087)
Property and equipment	(31)	160	-	-	-	-	-	129
Other financial liabilities	755	(189)	-	-	-	-	9,395	9,961
Share issue expenses	871	21,188	-	-	-	-	-	22,059
	<u>\$ (30,998)</u>	<u>\$ 7,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,938)</u>
Tax losses	30,998	(7,060)	-	-	-	-	-	23,938
Deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Opening Balance	Recognised in loss	Recognised in OCI	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
December 31, 2011								
Temporary differences								
Exploration and evaluation	\$ (15,458)	(14,448)	\$ -	\$ -	\$ -	\$ -	(2,687)	\$ (32,593)
Property and equipment	(4)	(27)	-	-	-	-	-	(31)
Other financial liabilities	498	(32)	-	-	-	-	289	755
Share issue expenses	1,092	(2,142)	-	1,921	-	-	-	871
	<u>\$ (13,872)</u>	<u>\$ (16,649)</u>	<u>\$ -</u>	<u>\$ 1,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,398)</u>	<u>\$ (30,998)</u>
Tax losses	12,981	18,017	-	-	-	-	-	30,998
Deferred tax assets (liabilities)	<u>\$ (891)</u>	<u>\$ 1,368</u>	<u>\$ -</u>	<u>\$ 1,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,398)</u>	<u>\$ -</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 year ended December 31, 2012. The Corporation files all required income tax returns and believes that it is in full compliance with the provisions, tax interpretations, regulations and legislation of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authorities. In the event of a successful reassessment, such reassessment may have an impact on current and future taxes payable.

The 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 year ended December 31, 2012.

The following estimated tax deductions available to the Corporation in Canada. The tax losses will begin expiring in 2027.

	As at December 31, 2012
	(\$000)
Non-capital losses	\$ 229,305
Exploration and evaluation	430,172
Property and equipment	964
Share issue costs	88,238
	<u>\$ 748,679</u>

Review of Annual Results

The consolidated financial statements for the Corporation for the year ended December 31, 2012, were reviewed by the Audit Committee of the Corporation.

Publication of information

This annual 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.



CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2012 and 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sunshine Oilsands Ltd.

We have audited the accompanying consolidated financial statements of Sunshine Oilsands Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sunshine Oilsands Ltd. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Chartered Accountants
March 26, 2013
Calgary, Canada

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

(\$000 except for per share amounts)	Notes	Year ended December 31,	
		2012	2011
Other income			
Foreign exchange gain		\$ 8,999	\$ -
Interest income		3,229	1,625
		<u>12,228</u>	<u>1,625</u>
Salaries, consulting and benefits		16,339	7,331
Rent		944	611
Legal and audit		1,569	1,252
Depreciation	8	290	186
Share-based payment expense	13	13,384	8,075
Expense portion of IPO costs		16,258	3,547
Fair value adjustment on warrants	12	-	20,298
Finance costs	15	20,237	25,470
Other		4,935	3,615
		<u>73,956</u>	<u>70,385</u>
Loss before income taxes		61,728	68,760
Income tax recovery	11	-	1,368
		<u>-</u>	<u>1,368</u>
Net loss and comprehensive loss for the year attributable to equity holders of the Corporation		<u>\$ 61,728</u>	<u>\$ 67,392</u>
Loss per share			
Basic and diluted	16	\$ 0.02	\$ 0.05

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	As at December 31,	
		2012	2011
		(\$000)	(\$000)
Assets			
Current Assets			
Cash and cash equivalents	4	\$ 282,231	\$ 84,957
Trade and other receivables	5	2,155	3,583
Prepaid expenses and deposits	6	701	798
		<u>285,087</u>	<u>89,338</u>
Non-Current Assets			
Exploration and evaluation	7	366,668	382,277
Property and equipment	8	327,971	719
Other assets		-	3,380
		<u>694,639</u>	<u>386,376</u>
		<u>\$ 979,726</u>	<u>\$ 475,714</u>
Liabilities and Shareholders' Equity			
Current Liabilities			
Trade and other payables	9	\$ 68,821	\$ 33,365
Provisions for decommissioning obligation	10	795	68
Fair value of warrants	12	-	63,000
		<u>69,616</u>	<u>96,433</u>
Non-Current Liabilities			
Share repurchase obligation	14	-	224,362
Provisions for decommissioning obligation	10	39,034	6,332
		<u>39,034</u>	<u>230,694</u>
		<u>108,650</u>	<u>327,127</u>
Shareholders' Equity			
Share capital	12	991,798	219,174
Reserve for share based compensation		47,395	30,074
Deficit		(168,117)	(100,661)
		<u>871,076</u>	<u>148,587</u>
		<u>\$ 979,726</u>	<u>\$ 475,714</u>

Approved by the Board

"Robert J. Herdman"
 Director

"Michael J. Hibberd"
 Director

See accompanying notes to these consolidated financial statements.

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

For the year ended December 31, 2012					
(\$000)	Notes	Reserve for share based compensation**	Share capital	Deficit	Total
Balance at December 31, 2011		\$ 30,074	\$ 219,174	\$ (100,661)	\$ 148,587
Net loss and comprehensive loss for the period		-	-	(61,728)	(61,728)
Recognition of share-based payments	13.4	20,445	-	-	20,445
Issue of common shares	12	-	569,880	-	569,880
Issue of preferred shares	12	-	0	-	0
Reclassification of share repurchase obligation	14	-	247,957	-	247,957
Repurchase of common shares	12	-	(38,731)	-	(38,731)
Issue of common shares for services	18.1	-	8,378	-	8,378
Issue of shares upon exercise of share options	12	-	8,052	-	8,052
Share option transferred on exercise of share options	12	(3,124)	3,124	-	-
Repurchase and cancellation of warrants	12	-	-	(5,994)	(5,994)
Recognition of credit on credit facility	18.1	-	-	266	266
Share issue costs, net of deferred tax (\$Nil)	12	-	(26,036)	-	(26,036)
Balance at December 31, 2012		\$ 47,395	\$ 991,798	\$ (168,117)	\$ 871,076

For the year ended December 31, 2011					
(\$000)	Notes	**Reserve for share based compensation	Share capital	Deficit	Total
Balance at December 31, 2010		\$ 17,643	\$ 224,526	\$ (19,736)	\$ 222,433
Net loss and comprehensive loss for the year		-	-	(67,392)	(67,392)
Recognition of share-based payments	13	15,230	-	-	15,230
Issue of common shares	12	-	7,470	-	7,470
Common shares issued on a flow-through basis	12	-	6,471	-	6,471
Issue of preferred shares	12	-	13	-	13
Cancellation of preferred shares	12	-	(1)	-	(1)
Issue of shares upon exercise of share options	12	(10)	1,263	-	1,253
Share option transferred on exercise of share options	12	(512)	512	-	-
Reclassification of fair value of warrants	12	(2,277)	(20,514)	(13,533)	(36,324)
Share issue costs, net of deferred tax (\$136,120)	12	-	(566)	-	(566)
Balance at December 31, 2011		\$ 30,074	\$ 219,174	\$ (100,661)	\$ 148,587

** 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 these consolidated financial statements.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Notes	Year ended December 31,	
		2012	2011
		(\$000)	(\$000)
Cash flows from operating activities			
Loss before income taxes	\$	(61,728)	\$ (68,760)
Finance costs		20,237	25,470
Expense portion of IPO costs		10,863	3,547
Fair value adjustment on warrants	12	-	20,298
Unrealized foreign exchange loss/(gain)		21	-
Interest income		(3,229)	(1,625)
Depreciation	8	290	186
Share-based payment expense	13	13,384	8,075
		(20,162)	(12,809)
Movements in non-cash working capital			
(Increase)/decrease in trade and other receivables		1,557	(1,634)
(Increase)/decrease in prepaids and deposits		97	(485)
Increase/(decrease) in trade and other payables		(73)	1,149
		(18,581)	(13,779)
Cash flows from investing activities			
Interest received		3,229	1,625
Payments for exploration and evaluation assets		(229,382)	(155,561)
Payments for property and equipment	8	(740)	(430)
		(226,893)	(154,366)
Cash flows from financing activities			
Payment for deferred portion of IPO costs		-	(2,152)
Payment for repurchase of common shares	12	(38,731)	-
Proceeds from issue of preferred shares		-	12
Proceeds from issue of common shares	12	577,932	15,852
Payment for share issue costs		(25,128)	(758)
Payment for finance costs	15	(2,000)	-
Proceeds from share repurchase obligation		-	210,000
Payment for transaction costs on share repurchase obligation		-	(11,392)
Advance from (repayment of) credit facility	18.1	-	-
Payment for advisory fee	18.1	(441)	-
Payment for warrant settlement		(68,863)	-
		442,769	211,562
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		(21)	-
Net increase/(decrease) in cash and cash equivalents		197,274	43,417
Cash and cash equivalents, beginning of year		84,957	41,540
Cash and cash equivalents, end of year	\$	282,231	\$ 84,957

See accompanying notes to these consolidated financial statements.

Notes to the Consolidated Financial Statements
As at and for the years ended December 31, 2012 and 2011
(Expressed in Canadian dollars, unless otherwise indicated)

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 its 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 pursuant to an initial public offering ("IPO") and trades under the stock code symbol of "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. On November 16, 2012, the Corporation completed a listing of its common shares on the Toronto Stock Exchange ("TSX") and trades under the symbol of "SUO".

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 a 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 engaged in the evaluation and the development of oil properties for the future production of bitumen in the Athabasca oilsands region in Alberta, Canada. The 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 anticipates incurring substantial expenditures to further its capital development programs.

2. Basis of Preparation

2.1 Statement of compliance

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

2.2 Critical accounting judgments and key sources of estimation uncertainty

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

2.2.1 Critical judgments and estimates in applying accounting policies

The following are the critical judgments, apart from those involving estimates, that management has made in applying the 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, forecasts of production, prices, cost estimates and economic conditions.

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production 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 plus 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.

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 recoverable value. This assessment involves judgment as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues based on forecasted oil and gas prices; (iii) future development costs and production expenses; (iv) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value; and (v) potential value to future E&E activities of any geological and geophysical data acquired.

Decommissioning costs

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

Share 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 has been applied which is based on estimates and assumptions to determine the effective interest rate. The effects of a change in the 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 right 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 instruments. The effects of a change in one or more of these variables could result in a materially different fair value.

Deferred income taxes

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

3. Significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the Corporation's wholly owned subsidiaries, Fern Energy Ltd. ("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 consolidated financial statements when control is achieved and until control is lost. Inter-company transactions, balances, revenues and expenses are eliminated on consolidation.

3.2 Oil and Natural Gas Exploration and Development Expenditures

Exploration and evaluation assets

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

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

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

Impairment

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

Exploration and evaluation assets are tested for impairment at least annually and prior to reclassification. To test for impairment, exploration and evaluation assets are allocated to each CGU or groups of CGU, that are expected to benefit from the exploration and evaluation activity. E&E assets are assessed for impairment within the aggregation of all CGU's in that segment. After impairment is assessed, any carrying amounts which exceed recoverable amounts on the exploration and evaluation assets are written down to the recoverable amount through the consolidated statements of operations and comprehensive loss.

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

3.3 Property and equipment

Carrying value

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

Depletion and depreciation

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

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

Impairment

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

generally computed by reference to the present value of the future cash flows expected to be derived from production of estimated recoverable reserves.

For impairment losses identified based on a CGU, or a group of CGUs, the loss is allocated on a pro rata basis to the assets within the CGU(s). This is first completed by reducing the carrying amount of any goodwill allocated to the CGU, or group of CGUs and then reducing the carrying amount of other assets of the CGU, or group of CGUs, on a pro rata basis. The impairment loss is recognised as an expense in the consolidated statements of operations and comprehensive loss unless it is related to a re-valued asset where the value changes are recognised directly into equity.

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

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

Maintenance and repairs

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

3.4 Provisions

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

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

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

3.4.1 Decommissioning costs

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

3.5 Share-based payments

3.5.1 Equity-settled share-based payment transactions

Share options and preferred shares issued to employees

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

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

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

At the time when the equity instruments are exercised or converted, the amount previously recognised in reserve for share based compensation will be transferred to share capital. When the equity instruments are cancelled, they are treated as if they had vested on the date of cancellation and any cost not yet recognised in the consolidated statements of operations and comprehensive loss is expensed immediately.

The Corporation records compensation expense at the date of issue, based on fair value and management's best estimate of the prospect of converting some, or all, of the Class "G" and Class "H" preferred shares to Class "A" common shares. There were no issuances of either Class "G" and Class "H" preferred shares post IPO on March 1, 2012.

Share options and preferred shares issued to non-employees

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

3.5.2 Cash-settled share-based payment transactions

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

3.6 Financial assets

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

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

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

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

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

3.6.2 Loans and receivables

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

3.6.3 Impairment of financial assets

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

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

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

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

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

3.6.4 Derecognition of financial assets

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

3.7 Financial liabilities and equity instruments issued by the Corporation**3.7.1 Classification as debt or equity**

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

3.7.2 Equity instruments

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

3.7.3 Financial liabilities

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

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

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Corporation has classified its trade and other payables, borrowings and share repurchase obligation as other financial liabilities.

3.7.4 Derecognition of financial liabilities

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

3.7.5 Flow through shares

Pursuant to the terms of flow-through share agreements, tax deductions associated with eligible expenditures are renounced to the subscribers. Flow-through shares are recorded at their fair value without any adjustment for the renouncement of tax deductions. The difference between the fair value of the flow-through share and the cash received for the flow-through share is recorded as an obligation to renounce the flow through share expenditure. This obligation is reversed and a deferred tax liability is recognised once the eligible expenditures are renounced and the obligation in respect of the share is met.

3.8 Taxation

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

3.8.1 Current tax

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

3.8.2 Deferred tax

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

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

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

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

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

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

3.9 Cash and cash equivalents

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

3.10 Related party transactions

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

3.11 Borrowing costs

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

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

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

3.12 Deferred costs

Deferred costs presented as Other Assets primarily consist of costs incurred for the IPO. In March 2012 with the closing of the IPO financing, the allocated amount relating to the issuance of new shares under the IPO was charged to share issue costs and the remainder of IPO costs were expensed in the period.

3.13 Jointly controlled assets

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

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

3.14 Treasury shares

The Corporation's own equity instruments that are repurchased by the Corporation are recognized at the market price at the date of repurchase and deducted from share capital.

3.15 Future accounting changes

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. The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and these standards are not expected to have a material impact on its consolidated financial statements.

IFRS 9, Financial Instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 9 is required to be applied for annual periods beginning on or after January 1, 2015.

IFRS 10, Consolidated Financial Statements

For annual periods beginning on January 1, 2013, IFRS 10 will replace portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidation - Special Purpose Entities. The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Corporation will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee.

As required by this standard, control is reassessed as facts and circumstances change. Additional guidance is given on how to evaluate whether certain relationships give the Corporation the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights and principal agency relationships (including removal rights), all of which may differ from current practice.

IFRS 10 is required to be applied for annual periods beginning on or after January 1, 2013.

IFRS 11, Joint Arrangements

IFRS 11 applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

IFRS 11 is required to be applied for annual periods beginning on or after January 1, 2013.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new section, the Corporation will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities and the nature of the risks associated with interests in other entities.

IFRS 12 is required to be applied for annual periods beginning on or after January 1, 2013.

IFRS 13, Fair Value Measurement

IFRS 13 will converge the IFRS requirements for how to measure fair value and the related disclosures. IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Corporation will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the "exit price" and concepts of "highest and best use" and "valuation premise" would be relevant only for non-financial assets and liabilities.

IFRS 13 is required to be applied for annual periods beginning on or after January 1, 2013.

4. Cash and cash equivalents

	2012		2011	
	(\$000)		(\$000)	
Cash	\$	13,966	\$	3,906
Term deposits		268,265		81,051
Cash and cash equivalents	\$	282,231	\$	84,957

As at December 31, 2012, the Corporation's cash equivalents comprises primarily high yield savings and term deposits which have maturity range of up to three months and an interest rate range of 0.5% to 1.26%.

5. Trade and other receivables

	2012		2011	
	(\$000)		(\$000)	
Trade	\$	297	\$	2,048
Accruals and other		387		12
Goods and Services Taxes receivable		1,471		1,523
	\$	2,155	\$	3,583

6. Prepaid expenses and deposits

	2012		2011	
	(\$000)		(\$000)	
Prepaid expenses	\$	276	\$	345
Deposits		425		453
	\$	701	\$	798

7. Exploration and evaluation assets

(\$000)

Balance, December 31, 2010	\$	197,836
Capital expenditures		166,403
Non-cash expenditures ¹		18,038
Transferred to PPE		-
Balance, December 31, 2011		<u>382,277</u>
Capital expenditures		269,348
Non-cash expenditures ¹		41,845
Transferred to PPE		<u>(326,802)</u>
Balance, December 31, 2012	\$	<u>366,668</u>

1. Non-cash expenditures include capitalized share-based payment expense, financing costs and decommissioning obligation assets.

During the year ended December 31, 2012, the Corporation transferred \$326.8 million of accumulated costs with respect to the West Ells project from exploration and evaluation assets to crude oil assets included in property and equipment (Note 8).

The Corporation is a development stage entity, and as a result, no depletion expense has been recorded for exploration and evaluation assets for any period. During the year ended December 31, 2012, the Corporation capitalized directly attributable costs including \$0.9 million for share-based payment expense (2011 - \$7.2 million), \$1.9 million of pre-production operating loss (2011 - \$2.2 million), \$1.3 million of finance costs (2011 - \$6.8 million) and \$1.8 million of general and administrative costs (2011 - \$7.8 million).

Exploration and evaluation costs are comprised of the following:

	2012		2011	
	(\$000)		(\$000)	
Intangibles	\$	258,664	\$	294,055
Tangibles		17,200		13,568
Land and lease costs		90,804		74,654
	\$	<u>366,668</u>	\$	<u>382,277</u>

8. Property and equipment

	Crude Oil Assets		Corporate Assets		Total
	(\$000)		(\$000)		(\$000)
Cost					
Balance, January 1, 2011	\$	-	\$	778	\$ 778
Capital expenditures		-		430	430
Non-cash expenditures ¹		-		-	-
Transferred from E&E		-		-	-
Balance, December 31, 2011		-		1,208	1,208
Capital expenditures		-		740	740
Non-cash expenditures ¹		-		-	-
Transferred from E&E		326,802		-	326,802
Balance, December 31, 2012	\$	326,802	\$	1,948	\$ 328,750
Accumulated Depreciation					
Balance, January 1, 2011	\$	-	\$	303	\$ 303
Depreciation expense		-		186	186
Balance, December 31, 2011		-		489	489
Depreciation expense		-		290	290
Balance, December 31, 2012	\$	-	\$	779	\$ 779
Carrying value, December 31, 2012	\$	326,802	\$	1,169	\$ 327,971
Carrying value, December 31, 2011	\$	-	\$	719	\$ 719

During the year ended December 31, 2012, the Corporation transferred \$326.8 million of accumulated costs with respect to the West Ells project from exploration and evaluation assets. This transferred amount includes directly attributable costs capitalized for the year ended December 31, 2012 as follows: \$6.2 million of share-based payment expense, \$0.8 million of finance costs and \$8.4 million of general and administrative costs.

At December 31, 2012, the crude oil assets, included in the above property and equipment, were not subject to depletion as it relates to assets that are not ready for use in the manner intended by management.

9. Trade and other payables

	2012		2011	
	(\$000)		(\$000)	
Trade	\$	6,815	\$	11,952
Accrued liabilities		62,006		21,413
	\$	68,821	\$	33,365

10. Provisions for decommissioning obligation

At December 31, 2012, the estimated total undiscounted cash flows required to settle asset decommissioning obligations was \$73.4 million (2011 - \$6.7 million). Expenditures to settle asset decommissioning obligations are estimated to be incurred between 2013 and 2137. Decommissioning costs are based on estimated cash flows discounted using an annual risk-free rate between 1.1% to 2.4% and inflated using an inflation rate of 2.0%.

	2012		2011	
	(\$000)		(\$000)	
Balance, beginning of year	\$	6,400	\$	2,169
Additional provisions recognised		32,346		3,729
Effect of changes in the discount rate		322		373
Unwinding of discount rate and effect		761		129
		39,829		6,400
Current portion		(795)		(68)
Balance, end of year	\$	39,034	\$	6,332

11. Income taxes

11.1 Income tax recognised in the Statements of Operations and Comprehensive Loss

Income taxes comprises:

Tax recovery in respect of the current year

Effect of changes in tax rates and laws

Total tax recovery

Year ended December 31,

	2012	2011
	(\$000s)	(\$000s)
\$	-	\$ (1,304)
	-	(64)
\$	-	\$ (1,368)

Year ended December 31,

	2012	2011
	(\$000)	(\$000)
\$	(61,728)	\$ (68,760)
Tax rate (%)	25.0%	26.5%
Expected income tax recovery	(15,432)	(18,221)
Effect of expenses that are not deductible in determining taxable profit:		
Stock compensation expense	3,346	2,140
Non-deductible expensed portion of share issue costs	-	-
Fair value adjustment on warrants	-	5,379
Non-deductible interest ¹	1,004	6,715
Capital portion of foreign exchange gain	(1,125)	-
Flow-through shares	-	1,267
Unrecognized tax assets	12,033	-
Changes to opening tax pools	174	1,216
Effect on deferred tax balances due to the changes in income tax rate	-	136
Income tax recovery	\$ -	\$ (1,368)

1. Non-deductible interest relates to finance costs on funds raised subject to the share repurchase obligation (Note 14).

11.2 Income tax recognised directly in equity

Year ended December 31,

	2012	2011
	(\$000)	(\$000)
Current tax		
Share issue costs	\$ -	\$ -
Deferred tax		
Share issue expenses deductible over 5 years	-	(1,921)
Excess tax deductions related to share-based payments	-	-
Total income tax recognised directly in equity	\$ -	\$ (1,921)

11.3 Unrecognised deferred tax assets

As at December 31,

	2012	2011
	(\$000)	(\$000)
Deferred tax assets not recognised at the reporting date:		
Tax losses (revenue)	\$ 33,386	\$ 1,216
Temporary differences	-	-
\$	33,386	\$ 1,216

11.4 Deferred tax balances

	Opening Balance	Recognised in loss	Recognised in OCI	Recognised directly in equity	Reclassified from equity to loss	Acquisition/ Disposals	Other	Closing Balance
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
December 31, 2012								
Temporary differences								
Exploration and evaluation	\$ (32,593)	(14,099)	-	-	-	-	(9,395)	\$ (56,087)
Property and equipment	(31)	160	-	-	-	-	-	129
Other financial liabilities	755	(189)	-	-	-	-	9,395	9,961
Share issue expenses	871	21,188	-	-	-	-	-	22,059
\$	(30,998)	\$ 7,060	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (23,938)
Tax losses	30,998	(7,060)	-	-	-	-	-	23,938
Deferred tax assets (liabilities)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

December 31, 2011	Opening Balance (\$000s)	Recognised in loss (\$000s)	Recognised in OCI (\$000s)	Recognised directly in equity (\$000s)	Reclassified from equity to loss (\$000s)	Acquisition/ Disposals (\$000s)	Other (\$000s)	Closing Balance (\$000s)
Temporary differences								
Exploration and evaluation	\$ (15,458)	(14,448)	\$ -	\$ -	\$ -	\$ -	\$ (2,687)	\$ (32,593)
Property and equipment	(4)	(27)	-	-	-	-	-	(31)
Other financial liabilities	498	(32)	-	-	-	-	289	755
Share issue expenses	1,092	(2,142)	-	1,921	-	-	-	871
	<u>\$ (13,872)</u>	<u>\$ (16,649)</u>	<u>\$ -</u>	<u>\$ 1,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,398)</u>	<u>\$ (30,998)</u>
Tax losses	12,981	18,017	-	-	-	-	-	30,998
Deferred tax assets (liabilities)	<u>\$ (891)</u>	<u>\$ 1,368</u>	<u>\$ -</u>	<u>\$ 1,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,398)</u>	<u>\$ -</u>

12. Share capital

Issued capital	2012 (\$000)	2011 (\$000)
Common shares	\$ 991,758	\$ 216,761
Class "G" preferred shares	29	31
Class "H" preferred shares	11	11
Purchase warrants	-	2,371
Issued capital	<u>\$ 991,798</u>	<u>\$ 219,174</u>

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.

	2012		2011	
	Number of shares	\$ (\$000)	Number of shares	\$ (\$000)
12.1 Fully paid Class "A" common shares				
Balance, beginning of year	1,470,171,240	\$ 216,761	1,423,298,640	\$ 196,318
Issued for cash	923,299,500	569,880	15,432,780	7,470
Issued for services	13,566,395	8,378	-	-
Reclassification of share repurchase obligation	433,884,300	247,957	-	-
Repurchase of common shares	(85,091,500)	(38,731)	-	-
Repurchase of purchase warrants	-	2,371	-	-
Conversion of preferred shares exercised	1,450,800	2	-	-
Common shares issued on a flow-through basis	-	-	13,370,820	6,471
Exercise of flow-through warrants	-	-	11,215,000	5,293
Issue of shares upon exercise of share options	74,432,426	8,052	6,854,000	1,263
Share option reserve transferred on exercise of stock options	-	3,124	-	512
Share issue costs	-	(26,036)	-	(566)
Balance, end of year	2,831,713,161	991,758	1,470,171,240	216,761

Common shares

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

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 \$2.4 million 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 \$569.9 million (HK\$4.5 billion) (Note 14). Pursuant to this event, the Corporation recognized an advisory fee owing (Note 18) of \$8.8 million (HK\$69.4 million). The obligation was settled through the issuance of 13,566,395 common shares for \$8.4 million and cash paid of \$0.4 million.

Also in conjunction with the Qualifying IPO, the balance of \$230.2 million of the share repurchase obligation (net of transaction costs of \$17.8 million), 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 \$17.8 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 has been included in finance costs (Note 15) for the year ended December 31, 2012.

For the year ended December 31, 2012, pursuant to total costs incurred for its IPO, the Corporation recognized an allocation amount of share issue costs of \$21.1 million.

In 2012, the Corporation repurchased and cancelled 85,091,500 common shares at a weighted average price per common share of \$0.46 (HK\$3.43), for total consideration of \$38.7 million.

Class "G" preferred shares

The Corporation's Board of Directors authorized for issuance a maximum of 65,000,000 Class "G" preferred shares. The Class "G" preferred shares are entitled to one vote per share 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.

	2012			2011		
	Class "G" preferred shares	\$ (\$000)	Weighted average price	Class "G" preferred shares	\$ (\$000)	Weighted average price
Balance, beginning of year	63,310,000	\$ 31	\$ 0.33	54,470,000	\$ 27	\$ 0.31
Issued	830,000	-	\$ 0.48	10,800,000	5	\$ 0.48
Converted	(3,700,000)	(2)	\$ 0.39	-	-	-
Forfeited	-	-	-	(1,960,000)	(1)	\$ 0.46
Balance, end of year	60,440,000	\$ 29	\$ 0.33	63,310,000	\$ 31	\$ 0.33
Convertible, end of year	27,802,400	\$ 14	\$ 0.33	-	-	-

For the year ended December 31, 2012, the Corporation issued 830,000 Class "G" preferred shares. 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:

	Year ended December 31,	
	2012	2011
Weighted average expected volatility (%)	75%	75% - 96%
Risk-free rate of return (%)	1.1%	1.0% - 2.19%
Expected life (years)	1.89 - 1.99	2.02 - 2.87
Expected forfeitures	Nil	Nil
Dividends	Nil	Nil

Class "H" preferred shares

The Corporation's Board of Directors 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.

	2012			2011		
	Class "H" preferred shares	\$ (\$000)	Weighted average price	Class "H" preferred shares	\$ (\$000)	Weighted average price
Balance, beginning of year	22,200,000	\$ 11	\$ 0.42	7,200,000	\$ 3	\$ 0.28
Issued	-	-	-	15,000,000	8	\$ 0.48
Balance, end of year	22,200,000	\$ 11	\$ 0.42	22,200,000	\$ 11	\$ 0.42
Convertible, end of year	10,212,000	\$ 5	\$ 0.42	-	-	-

For the year ended December 31, 2012, the Corporation issued no Class "H" preferred shares. The weighted average fair value of the Class "H" preferred shares was estimated to be \$0.48 per Class "H" preferred share, using the Black Scholes pricing model with the following assumptions:

	Year ended December 31,	
	2012	2011
Weighted average expected volatility (%)	-	91% - 96%
Risk-free rate of return (%)	-	1.82% - 2.50%
Expected life (years)	-	2.27 - 2.87
Expected forfeitures	-	Nil
Dividends	-	Nil

Features of Class "G" and Class "H" preferred shares

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 earlier of December 31, 2013 or a change of control (the "expiry date").

Both the Class "G" and the Class "H" preferred shares are convertible into Class "A" common shares on a one for one basis, 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 or February 29, 2012	0%	82,640,000	-
IPO date to 6 months after IPO date less a day or March 1, 2012 - August 31, 2012	30%	82,640,000	24,792,000
6 months after IPO date to 12 months after IPO date less a day or September 1, 2012 - February 28, 2013	46%	82,640,000	38,014,400
12 months after IPO date to 18 months after IPO date less a day or March 1, 2013 - August 31, 2013	62%	82,640,000	51,236,800
18 months after IPO date to 21 months after IPO date less a day or September 1, 2013 - November 30, 2013	78%	82,640,000	64,459,200
21 months after IPO date to 24 months after IPO date December 1, 2013 - February 28, 2014	100%	82,640,000	82,640,000
Expiry Date or December 31, 2013	100%	82,640,000	82,640,000

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.

On January 4, 2012, the Corporation completed the repurchase and cancellation of all purchase and fee warrants. For the year ended December 31, 2012, the Corporation recognized \$Nil (2011 - \$20.3 million) fair value adjustment on the 124,719,900 purchase warrants and the 12,499,920 fee warrants since the fair value of the warrants was based on the

The following assumptions were used in the Black Scholes pricing model for the determination of the fair value of the warrants:

	Year ended December 31,	
Fee warrants	2012	2011
Weighted average expected volatility (%)	-	91% - 96%
Risk-free rate of return (%)	-	2.02% - 2.19%
Expected life (years)	-	3.00
Expected forfeitures	-	Nil
Dividends	-	Nil

13.1 Employee share option plan

The Corporation's pre-IPO stock option plan is for directors, officers, employees, consultants and advisors of the Corporation. These options vest over a period up to three years from the date of grant. Following the IPO closing on March 1, 2012, no further options will be issued under the Pre-IPO Stock Option Plan.

On January 26, 2012, the Post-IPO Stock Option Plan 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 IPO closing and listing on the SEHK, March 1, 2012. The maximum number of Class "A" common shares that may be reserved for issuance pursuant to the Post-IPO Stock Option Plan is 10% of the total number of issued and outstanding shares, less the maximum aggregate number of shares underlying the options already granted pursuant to the Pre-IPO Stock Option Plan. 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.

13.2 Fair value of share options granted in the period

The weighted average fair value of the share options granted for the year ended December 31, 2012 was \$0.27 (2011: \$0.27). Options were priced using the Black Scholes model. From inception of the Corporation to December 31, 2012, the cumulative weighted average fair value per option is \$0.14. 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:

	Series 5 - 15	Series 16	Series 17 - 23e	Series 24a to 37	Series 38a - 43	Series 44a - 44c
Grant date share price (\$)	0.14 - 0.20	0.45	0.26 - 0.28	0.48	0.64 - 0.65	0.38 - 0.80
Exercise price (\$)	0.14 - 0.20	0.45	0.26 - 0.28	0.48	0.64 - 0.65	0.38 - 0.80
Expected volatility (%)	50.0	50.0	96.0	77.6 - 96.0	75.5	66.5
Option life (years)	3.0	3.0	3.0	3.0	3.0	3.0 - 4.67
Dividend yield (%)	-	-	-	-	-	-
Risk-free interest rate (%)	3.00	3.00	1.86 - 2.25	1.55 - 2.50	1.09 - 1.30	1.21
Expected forfeitures (%)	-	-	1.0	1.0	1.0	3.2

Options from Series 25 to Series 44a vest as to one-third on grant date and as to one-third on each of the first and second anniversaries from grant date while Series 44b vest as to one-third on each of the first, second and third anniversaries from grant date and Series 44c vest as to one-third on each of the second, third and fourth anniversaries from grant date.

13.3 Movements in share options during the period

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

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Balance, beginning of year	202,958,540	0.22	189,723,980	0.18
Granted	70,194,338	0.55	23,313,540	0.48
Exercised	(74,432,426)	0.11	(6,854,000)	0.18
Forfeited	(6,214,764)	0.51	(3,224,980)	0.40
Balance, end of year	192,505,688	0.37	202,958,540	0.22
Exercisable, end of year	129,172,529	0.29	170,785,520	0.18

The share options outstanding as at December 31, 2012, had a weighted average remaining contractual life of 2.6 years (2011 – 1.9 years).

13.4 Share-based compensation

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

Year Ended December 31, 2012				
(\$000)	Expensed	Capitalized	Total	
Stock options	\$ 6,804	\$ 3,395	\$	10,199
Preferred shares	6,580	3,666		10,246
	\$ 13,384	\$ 7,061	\$	20,445

Year ended December 31, 2011				
(\$000)	Expensed	Capitalized	Total	
Stock options	\$ 3,425	\$ 3,550	\$	6,975
Preferred shares	4,650	3,605		8,255
	\$ 8,075	\$ 7,155	\$	15,230

14. Share repurchase obligation

	2012		2011	
	(\$000)		(\$000)	
Balance, beginning of year	\$	224,362	\$	-
Issue of subscriptions for cash		-		210,000
Transaction costs		-		(17,770)
Accretion		5,864		32,132
Reclassification to common shares		(230,226)		-
Balance, end of year	\$	-	\$	224,362

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 \$230.2 million (net of total transaction costs of \$17.8 million), 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 year ended December 31, 2012, finance costs expensed were \$4.0 million (2011 - \$5.3 million) and finance costs of \$1.9 million (2011 - \$0.2 million) 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, \$4.7 million has been proportionately allocated to share issue costs with the remaining \$13.0 million expensed for the year ended December 31, 2012.

15. Finance costs

	Year ended December 31,		2012		2011	
	(\$000)		(\$000)		(\$000)	
Finance cost on share repurchase obligation ¹	\$	5,864	\$	32,132		
Expensed portion of share issue costs ²		13,012		-		
Finance cost on related party loan ³		266		-		
Finance costs on credit facility		2,449				
Unwinding of discounts on provisions		761		129		
Less: Amounts capitalized in exploration and evaluation assets ⁴		(2,115)		(6,791)		
	\$	20,237	\$	25,470		

1. Finance costs on share repurchase obligation relate to the \$210 million common share subscriptions, which closed in February 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 year ended December 31, 2012, total finance costs of \$5.9 million (2011 - \$5.5 million) were recognized, of which \$1.9 million (2011 - \$0.2 million) was capitalized in exploration and evaluation assets with the remaining \$4.0 million (2011 - \$5.3 million) expensed in finance costs. On March 1, 2012, the share repurchase obligation was reclassified to share capital (Note 14).

2. For the year ended December 31, 2012, expensed portion of share issue costs of \$13.0 million (2011 - \$Nil) 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 (Note 14).

3. During the year ended December 31, 2012, the Corporation drew and repaid \$30.0 million on an available \$100.0 million loan held by a related party. The loan was accounted for using the effective interest method (Note 18). During the year ended December 31, 2012, total finance costs of \$266,090 (2011 - \$Nil) were recognized, of which \$236,873 (2011 - \$Nil) was capitalized in exploration and evaluation assets with the remaining \$29,217 (2011 - \$Nil) expensed in finance costs.

4. For the year ended December 31, 2012, amount comprised of \$1.9 million (2011 - \$0.2 million) for the capitalized portion of finance costs on share repurchase obligation and \$0.2 million (2011 - \$Nil) capitalized finance costs on the loan.

16. Loss per share

The weighted average number for basic Class "A" common shares for the years ended December 31, 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.

	Year ended December 31,	
	2012	2011
Basic - Class "A" common shares ^{1,2}	2,611,962,522	1,462,502,402
Diluted - Class "A" common shares	2,611,962,522	1,462,502,402
Redeemable Class "A" common shares	-	289,256,200
Redeemable Class "B" common shares	-	144,628,100
Class "G" preferred shares	60,440,000	63,310,000
Class "H" preferred shares	22,200,000	22,200,000
Stock Options	192,505,688	202,958,540
Warrants	-	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 year ended December 31, 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 manage risk, the Corporation may from time to time issue shares and adjust its capital spending to manage current working capital levels. The Corporation's capital structure currently includes shareholders' equity and working capital. The Corporation is subject to financial covenants under the terms and conditions of a credit facility agreement (Note 19).

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 year ended December 31, 2012. In October 2012, the Corporation negotiated and signed a \$200 million Credit Facility (the "Credit Facility") with a syndicate of financial institutions (Note 19). In conjunction with the closing of the Credit Facility, the Corporation also terminated its \$100 million loan agreement with a significant shareholder (Note 18.1). The available amount under the Credit Facility has been excluded from capital structure. The Corporation's capital structure is described below:

	2012		2011	
	(\$000)		(\$000)	
Working capital (surplus)/deficiency	\$	(215,471)	\$	7,095
Share repurchase obligation		-		224,362
Shareholders' equity		871,076		148,587
	\$	655,605	\$	380,044

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.

17.3 Categories of financial instruments

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(\$000)	(\$000)	(\$000)	(\$000)
Financial Assets				
Cash, loans and other receivables	\$ 284,811	\$ 284,811	\$ 88,993	\$ 88,993
Financial Liabilities				
Fair value through profit or loss (FVTPL)	-	-	63,000	63,000
Other liabilities	66,621	66,621	257,728	257,728

17.4 Fair value of financial instruments

The carrying amounts of financial liabilities (such as FVTPL) recognised at amortised cost in the consolidated financial statements approximate their fair values. These financial liabilities have been assessed on a Level 3 fair value measurement.

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. These financial instruments have been assessed on a Level 1 fair value measurement.

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

17.5 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.

17.6 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. Thus, exchange rate fluctuations can affect the fair value of future cash flows. 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. The Corporation had no forward exchange rate contracts in place as at or during the year ended December 31, 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 December 31, 2012 would have been impacted by approximately \$14,000. At December 31, 2012, the Corporation held HK\$8.2 million or \$1.1 million using the December 31, 2012 exchange rate of 7.7905, 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 or physical delivery sales contracts.

17.7 Interest rate risk management

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2012, the Corporation does not have any floating rate debt.

The Corporation's cash and cash equivalents consists of cash held in bank accounts and term deposits that earn interest at variable interest rates. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values or result in material interest rate risk. The Corporation manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. For the year ended December 31, 2012, the interest income earned on cash equivalents was between 0.5% and 1.26%.

17.8 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 receivables. As at December 31, 2012, the Corporation's receivables consisted of 68% from Goods and Services Tax receivable, 26% from oil sale receivables and 6% from other receivables (2011 – 57% from oil sale receivables and 43% from Goods and Services Tax receivable).

The Corporation's cash and cash equivalents as at December 31, 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 yield savings and 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 December 31, 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 (2011 - \$Nil). The Corporation considers any amounts outstanding in excess of 120 days past due.

17.9 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 risk is to plan that it will have sufficient liquidity to meet its liabilities when due, using either equity or debt proceeds. The Corporation expects to settle all trade and other payables 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.

18. Related party transactions

Balances and transactions between the Corporation and its wholly owned subsidiaries, 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 had transactions with a law firm in which a director of the Corporation is a partner. The Corporation also paid consulting fees to two directors of the Corporation.

	Year ended December 31,	
	2012	2011
	(\$000)	(\$000)
Other assets ¹	\$ -	\$ 867
Share issue costs	271	115
	<u>\$ 271</u>	<u>\$ 982</u>
Legal expense	\$ 398	\$ 291
Expense portion of IPO costs	551	-
	<u>\$ 949</u>	<u>\$ 291</u>

1. Other assets consisted of IPO financing costs before allocation expense.

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

	2012	2011
	(\$000)	(\$000)
Legal	\$ 136	\$ 363

Advisory Fee Agreement (the "Agreement")

During 2010, the Corporation entered into an agreement to pay a fee for services to be rendered in connection with an initial filing of an IPO prospectus and listing. On March 1, 2012, the Corporation successfully closed its Qualifying IPO and listing on the SEHK. Pursuant to this event, the fee was settled through the issuance of 13,566,395 common shares for \$8,377,723 and cash paid of \$440,933. 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.

Related Party Loan Agreement (the "Loan Agreement")

The Corporation entered into a credit facility agreement ("the Loan Agreement") with a non-arm's length lender in which a loan for general working capital purposes was available of up to a maximum of \$100.0 million. The loan was interest free up to May 31, 2012. Amounts drawn on the loan were accounted for as a related party transaction since a director of the Corporation is also the controlling shareholder of the lending company.

During the year ended December 31, 2012, the Corporation drew \$30.0 million on the loan and subsequently repaid the balance. For the year ended December 31, 2012, total (non-cash) finance costs were \$266,090, of which \$29,217 was expensed and \$236,873 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 loan, \$266,090 was recorded to Other Reserve due to the related party nature of this transaction. In October 2012, in conjunction with the closing of the Credit Facility (Note 19), the Loan Agreement was terminated. The loan was a financial liability and has been classified as other liabilities and recorded at amortised cost, using the effective interest method.

The amounts outstanding were unsecured and settled in cash. 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

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

	Year ended December 31,	
	2012	2011
Directors' fees	\$ 681	\$ 248
Salaries and allowances	1,710	955
Share-based payments	12,282	5,752
Consulting fees	900	910
Performance related incentive payments	13,208	1,650
	<u>\$ 28,781</u>	<u>\$ 9,515</u>

19. Credit Facility

In October 2012, the Corporation negotiated and signed a \$200.0 million Credit Facility with a syndicate of financial institutions. The Credit Facility matures on October 10, 2013 and is extendable at the lenders' discretion. The Credit Facility bears interest at a floating rate based on Canadian dollar prime rate, US dollar base rate, bankers' acceptances or LIBOR plus a credit spread above the reference rate. Undrawn amounts are subject to a standby fee of 100 basis points per annum. The Credit Facility is secured by all assets of the Corporation. The amount available for drawdown is subject to a sufficient funding requirement which is defined as having on-hand funding equal to or exceeding the sum of the remaining costs to complete the Phase 1 and Phase 2 West Ells project plus a contingency amount equal to 20% of remaining costs to complete.

The Credit Facility is subject to various non-financial covenants including, amount other things, restrictions on issuing debt, making investments or loans, paying dividends, altering the nature of the business and undertaking corporate transactions. The Credit Facility also has certain financial covenants.

In conjunction with the closing of the Credit Facility, the Corporation terminated its \$100.0 million Loan Agreement with a significant shareholder (Note 18.1).

20. Operating lease arrangements

20.1 Leasing arrangements

Office Leases

The Corporation has a lease for corporate office space, located in Calgary, Canada, with a term expiring March 30, 2019. Total remaining commitment on this lease is approximately \$11.7 million.

The Corporation has secured office space in Hong Kong with a total minimum lease commitment of approximately \$1.2 million. This is based on a fixed rate for 38 months of the lease term at HK\$0.2 million per month with a foreign exchange rate of 1C\$ = 7.79HK\$ (based on Bank of Canada December 31, 2012 exchange rates). The Hong Kong lease expires October 31, 2017. Lease payments are HK\$0.2 million per month for the first 38 months and then an open market rate for the last 36 months. A deposit of HK\$0.7 million was paid upon signing of the lease.

Lease Rentals

As at December 31, 2012, the Corporation has an annual obligation of approximately \$1.7 million for oil sands mineral lease rentals and surface lease rentals. Each oilsands mineral lease has an initial fifteen year term from the date of acquisition. Each petroleum and natural gas lease has an initial four year term from date of acquisition.

20.2 Payments recognised as an expense

	Year ended December 31,	
	2012	2011
	(\$000)	(\$000)
Minimum lease payments	\$ 2,056	\$ 1,204

21. Commitments for expenditure

For the year ended December 31, 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
	(\$000)		(\$000)		(\$000)
Drilling and other equipment and contracts	\$ 173,815	\$	-	\$	-
Lease rentals	1,840		7,225		10,593
Office leases ¹	2,155		8,494		2,278
	\$ 177,810	\$	15,719	\$	12,871

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

22 Supplemental cash flow disclosures*Non-cash transactions*

For the year ended December 31, 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 \$8.4 million (Note 18.1);
- the share repurchase obligation has been reclassified to share capital for \$230.2 million (Note 12); and
- capitalized general and administrative costs and share-based payments and finance costs (Notes 7 and 8).

Supplemental cash flow disclosures

	Year ended December 31,	
	2012	2011
	(\$000)	(\$000)
Cash provided by (used in):		
Trade and other receivables	\$ 1,428	\$ (2,309)
Prepaid expenses and deposits	97	1,113
Trade and other payables	35,456	15,843
	<u>\$ 36,981</u>	<u>\$ 14,647</u>
 Changes in non-cash working capital relating to:		
<i>Operating activities</i>		
Trade and other receivables	\$ 1,557	\$ (1,634)
Prepaid expenses and deposits	97	(485)
Trade and other payables	(73)	1,149
	<u>\$ 1,581</u>	<u>\$ (970)</u>
 <i>Investing activities</i>		
Exploration and evaluation assets	\$ 39,966	\$ 10,842
 <i>Financing activities</i>		
Share issue costs and IPO costs	\$ (4,566)	\$ 4,775
	<u>\$ 36,981</u>	<u>\$ 14,647</u>
 <i>Reconciliation of:</i>		
Exploration and evaluation assets	\$ 269,348	\$ 166,403
Changes in non-cash working capital	(39,966)	(10,842)
Payments for exploration and evaluation assets	<u>\$ 229,382</u>	<u>\$ 155,561</u>
 <i>Reconciliation of:</i>		
Share issue costs and IPO costs	\$ 20,562	\$ 19,076
Changes in non-cash working capital	4,566	(4,775)
Payment for share issue costs	<u>\$ 25,128</u>	<u>\$ 14,301</u>

23. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 26, 2013.

Appendix to the Consolidated Financial Statements

Additional Stock Exchange Information

Additional information required by the SEHK and not shown elsewhere in these consolidated financial statements is as follows:

A1. Sunshine Oilsands Ltd. non-consolidated statement of financial position

The 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.

	2012	2011
	(\$000)	(\$000)
Non-current assets		
Property and equipment	\$ 327,968	\$ 719
Exploration and evaluation assets	366,625	382,234
Other assets	-	3,380
Amount due from subsidiaries	293	-
Investment in subsidiaries	60	60
	<u>694,946</u>	<u>386,393</u>
Current Assets		
Other receivables	2,147	3,582
Prepaid expense and deposits	691	798
Cash and cash equivalents	282,230	84,951
	<u>285,068</u>	<u>89,331</u>
Current Liabilities		
Trade and other payables	68,782	33,366
Provision for decommissioning obligation	795	68
Fair value of warrants	-	63,000
Borrowings	-	-
	<u>69,577</u>	<u>96,434</u>
Net current assets (liabilities)	<u>215,491</u>	<u>(7,103)</u>
Total assets less current liabilities	<u>910,437</u>	<u>379,290</u>
Non-current liabilities		
Share repurchase obligation	-	224,362
Provision for decommissioning obligation	39,034	6,332
Deferred tax liabilities	-	-
	<u>39,034</u>	<u>230,694</u>
Net Assets	<u>\$ 871,403</u>	<u>\$ 148,596</u>
Capital and reserves		
Share capital	991,798	219,174
Reserve for share based compensation	47,395	30,074
Deficit	(167,790)	(100,652)
	<u>\$ 871,403</u>	<u>\$ 148,596</u>

A2. Directors' emoluments and other staff costs

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

	Year ended December 31,	
	2012	2011
	(\$000)	(\$000)
<u>Directors' emoluments</u>		
Directors' fees	\$ 681	\$ 248
Salaries and allowances	900	910
Contribution to retirement benefit scheme	-	-
Share-based payments	7,832	4,476
Performance related incentive payments	12,000	1,040
	<u>21,413</u>	<u>6,674</u>
<u>Other staff costs</u>		
Salaries and other benefits	12,475	9,619
Contribution to retirement benefit scheme	248	164
Share-based payments	12,613	10,754
Performance related incentive payments	2,986	1,650
	<u>28,322</u>	<u>22,187</u>
Total staff costs, including directors' emoluments	49,735	28,861
Less: bonus included with expensed portion of IPO costs	5,000	-
Less: staff costs capitalized in exploration and evaluation assets	15,012	13,455
	<u>\$ 29,723</u>	<u>\$ 15,406</u>

Details of the directors' emoluments are as follows:

For the year ended December 31, 2012

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits schemes	Share based compensation	Performance related incentive payments	Total
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Michael Hibberd	\$ 82	\$ 450	\$ -	\$ 2,526	\$ 3,500	\$ 6,558
Songning Shen	82	450	-	2,526	3,500	6,558
Tseung Hok Ming	67	-	-	2,358	4,600	7,025
Tingan Liu	-	-	-	-	-	-
Haotian Li	61	-	-	78	-	139
Raymond Fong	76	-	-	36	75	187
Wazir C. (Mike) Seth	75	-	-	36	75	186
Greg Turnbull	70	-	-	86	100	256
Robert Herdman	89	-	-	91	75	255
Gerald Stevenson	79	-	-	91	75	245
Kevin Flaherty ¹	-	-	-	2	-	2
Zhijian Qin ¹	-	-	-	2	-	2
	<u>\$ 681</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 7,832</u>	<u>\$ 12,000</u>	<u>\$ 21,413</u>

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

For the year ended December 31, 2011

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits schemes	Share based compensation	Performance related incentive payments	Total
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Michael Hibberd	\$ 31	\$ 455	\$ -	\$ 1,016	\$ 520	\$ 2,022
Songning Shen	32	455	-	1,016	520	2,023
Tseung Hok Ming	24	-	-	1,697	-	1,721
Tingan Liu	-	-	-	-	-	-
Haotian Li	22	-	-	238	-	260
Kevin Flaherty	-	-	-	11	-	11
Raymond Fong	27	-	-	11	-	38
Zhijan Qin	-	-	-	11	-	11
Wazir C. (Mike) Seth	29	-	-	11	-	40
Greg Turnbull	27	-	-	61	-	88
Robert Herdman	29	-	-	202	-	231
Gerald Stevenson	27	-	-	202	-	229
	\$ 248	\$ 910	\$ -	\$ 4,476	\$ 1,040	\$ 6,674

A3. Five highest paid individuals

The five highest paid individuals includes three directors of the Corporation and two officers of the Corporation for the year ended December 31, 2012 (2011 – three directors and two officers). Other than as disclosed in Note A2 for the directors, the compensation of the remaining two officers is as follows:

	Year ended December 31,	
	2012	2011
	(\$000)	(\$000)
Salaries and other benefits	\$ 712	\$ 484
Contributions to retirement benefits schemes	4	7
Share based compensation	2,251	736
Performance related incentive payments	560	340
	\$ 3,526	\$ 1,567

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

	Year ended December 31,	
	2012	2011
HK\$ nil to HK\$1,000,000	-	-
HK\$1,000,001 to HK\$1,500,000	-	-
HK\$1,500,001 to HK\$2,000,000	-	-
HK\$2,000,001 to HK\$2,500,000	-	-
HK\$2,500,001 to HK\$3,000,000	-	-
HK\$3,000,001 to HK\$3,500,000	-	-
HK\$3,500,001 to HK\$4,000,000	-	-
HK\$4,000,001 to HK\$4,500,000	-	-
HK\$4,500,001 to HK\$5,000,000	-	-
HK\$5,000,001 to HK\$5,500,000	-	-
HK\$5,500,001 to HK\$6,000,000	-	2
HK\$6,000,001 to HK\$6,500,000	-	-
HK\$6,500,001 to HK\$7,000,000	-	-
> HK\$7,000,000	5	3

For the year ended December 31, 2012, the conversion factor used in the above table is 1C\$ = 7.762HK\$ (year ended December 31, 2011 – 1C\$ = 7.637HK\$).