



阳光油砂
SUNSHINE OILSANDS LTD.

Sunshine Oilsands Ltd.

陽光油砂有限公司*

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

(HKEX: 2012)



2016 Environmental, Social and Governance Report

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ABOUT THIS REPORT

Sunshine Oilsands Ltd. (the “Company”, together with its subsidiaries as the “Group”) is pleased to present the first Environmental, Social and Governance Report (the “Report”) to provide an overview of our commitment in achieving environmental, social and governance goals through our sustainability pillars.

PREPARATION BASIS AND SCOPE

This Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) – “Environmental, Social and Governance Reporting Guide” and complies with the “comply or explain” provisions as set out in the Listing Rules.

This Report summarizes the efforts contributed by the Group in respect of corporate social responsibility, covering the Group’s core operation in Hong Kong and Canada – which is the evaluation and the development of oil properties for the future production of bitumen in the Athabasca oilsands region in Alberta, Canada. Only certain of the key performance indicators are disclosed in this year and the Group will continue to optimize and improve the disclosure requirements. This Report shall be published in both Chinese and English. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

REPORTING PERIOD

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2016 to 31 December 2016.

CONTACT INFORMATION

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by email to tjin@sunshineoilsands.com.

STAKEHOLDERS ENGAGEMENT

The Group seeks to balance the views and interests of these various stakeholders through constructive conversations with a view to charting a course for the long-term prosperity of the Group and the communities we touch. Through stakeholders engagement, the Group understands the expectations and concerns from stakeholders so as to further enhance the sustainable development strategies.

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Stakeholders	Expectation	Engagement channel
Government	<ul style="list-style-type: none"> - Compliance with relevant laws and regulations - Proper tax payment - Promote regional economic development and employment 	<ul style="list-style-type: none"> - On-site inspections and checks, - Research and discussion through work conferences, work reports preparation and submission for approval - Annual reports and other published information - Website
Shareholders and Investors	<ul style="list-style-type: none"> - Low risk - Return on the investment - Transparent information - Protection of interests and fair treatment of shareholders 	<ul style="list-style-type: none"> - Annual general meeting and other shareholder meetings - Annual reports, announcements - Newsletters
Employees	<ul style="list-style-type: none"> - Safeguard the rights and interests of employees - Career development opportunities - Health and safety 	<ul style="list-style-type: none"> - Conference - Training, seminars, cultural and sport activities - Newsletters - Intranet and emails
Customers	<ul style="list-style-type: none"> - Safe and high-quality service - Stable relationship - Information transparency - Integrity and business ethics 	<ul style="list-style-type: none"> - Website, brochures, annual reports - Email and customer service hotline - Feedback forms - Regular meetings
Suppliers/ Business Partners	<ul style="list-style-type: none"> - Long-term partnership - Honest cooperation - Fair, open - Information resources sharing - Risk reduction 	<ul style="list-style-type: none"> - Business meetings, supplier conferences, phone calls, interviews - Regular meetings - Review and assessments - Tendering process
Peers/Industry associations	<ul style="list-style-type: none"> - Experience sharing - Co operations - Fair competition 	<ul style="list-style-type: none"> - Industry conferences - Site visits
Public and communities	<ul style="list-style-type: none"> - Community involvement - Culture conservation - Social responsibilities 	<ul style="list-style-type: none"> - Charity and social investment - Stakeholders engagement

ENVIRONMENTAL ASPECTS

EMISSIONS

Oil sands development in Alberta is controlled by extensive and long-established provincial legislation and is also subject to federal government approved environmental objectives. Detailed project applications, which are preceded by stakeholder consultation, are required to be submitted and are carefully reviewed by regulators before approvals are granted for projects. Once constructed, extensive environmental monitoring and reporting during operations is an ongoing requirement from production through reclamation phases for oil sands projects. The Group complies with relevant rules and standards set out by the Government of Alberta which empowers the Alberta Energy Regulator (AER), and Alberta Environment and Parks. Further goals, objectives, and policies are set out by the federal government through Environment Canada which must also be adhered to as country-wide initiatives evolve. The major part of environmental legislation is set out in the Environmental Protection and Enhancement Act (“EPEA”) and the Oil Sands Conservation Act and Rules. The Group ensures all emissions from the operation of the project meet the standards set by laws and regulations by having developed and used an “Environmental Guide Book” which sets out the requirements in summary terms. In 2016, the Group was not subject to any non-compliance by the government and was not involved in any lawsuit related to emission.

AIR POLLUTANT AND GREENHOUSE GAS (“GHG”) EMISSION

The Group ensures that facilities are designed and operated to meet or exceed both general standards and specific conditions set out in the projects’ approval issued under the Environment Protection and Enhancement Act (EPEA). Alberta has Ambient Air Quality Objectives (AAAQO) for emissions of Sulphur dioxide¹ and Nitrogen oxides and specific limits are set and emissions monitored. In addition, the Group participates in monitoring initiatives related to a large geographic area of the air shed under an EPEA condition related to the Joint Canada/Alberta Oil Sands Environmental Monitoring Program which accrues emission data from oil sands development in general. The Group’s environmental strategies target corporate standards, operations compliance, energy efficiency, liability reduction, air emissions and greenhouse gas management. The Group has developed strategies to consider life cycle costs of emission reductions in all its project developments and the Group is looking to reduce the potential impacts of new facilities at the planning stage, as well as reviewing state-of-art low emission technologies. During the reporting period, the air pollutants emission based on the consumption of resources are as follows:

¹ Sulphur oxides(SOx) is expressed in terms of SO₂ as most common type of sulphur oxides is SO₂.

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Air Pollutant ²	Emission (kg)
Total Nitrogen oxides³	26,523.12
- From stationary combustion	26,361.20
- From mobile combustion	161.92
Total Sulphur dioxide⁴	6,412.02
- From stationary combustion	6,411.69
- From mobile combustion	0.334
Total Particulate matter	26.08
- From stationary combustion ⁵	10.57
- From mobile combustion	15.51

Much of the emission of the air pollutants comes from the stationary fuel consumption of natural gas used to generate electricity and steam for various equipment associated with the project, and from diesel and gasoline vehicles in Canada. In Hong Kong, the air pollutants emission is not significant as there is office operation only. As stated earlier, emissions associated with the project are well within compliance limits set by the regulators. For example, according to the annual air emissions report for 2016 submitted to the Government of Alberta by the Group, the hourly average of nitrogen oxides is 3.24 kg/hr, well below the EPEA approval emission limit of 11.5 kg/hr. The emission of sulphur dioxide and hydrogen sulfide also comply fully with requirements stipulated in AAAQO.

In order to responsibly manage emissions, the Group integrated cogeneration into its Steam Assisted Gravity Drainage (SAGD) project and also blends all produced natural gas into the fuel stream thereby eliminating regular flaring or venting into the atmosphere. Integrated natural gas driven cogeneration has fewer emissions than coal power generation. The Group has also applied oil sands thermal recovery technologies to reduce emissions into the environment. Furthermore, the Group is exploring the use of new energy to reduce Green House Gas (GHG) to ensure the project meet future targets set by the governments' policies.

The Group has acknowledged that the global concern with climate change is a material issue and that it has a direct and indirect impact on all businesses as well as on the communities in which the Group operates. The Group's exploration activities and production facilities do emit GHG's which are subject to statutory regulations. A key piece of existing legislation with respect to emissions management is the Specified Gas Emitters Regulation ("SGER") under the Climate Change and

² Emissions from mobile combustion sources are estimated data based on consumption of fuel and the travel distance of vehicles and the emissions factors under HKEx ESG Reporting "Appendix 2: Reporting Guidance on Environmental KPIs".

³ Emission of nitrogen oxides from stationary combustion is the actual data from annual air emissions report uploaded to the Government of Alberta by the Group

⁴ Emission of SO₂ is the actual data from annual air emissions report uploaded to the Government of Alberta by the Group

⁵ According to HKEx ESG Reporting "Appendix 2: Reporting Guidance on Environmental KPIs", gaseous fuel consumption is not a significant source of PM emissions. Data estimated based on diesel consumption and calculator at Environment and Climate Change Canada (ECCC).

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Emissions Management Act in Alberta. SGER regulated facilities (facilities that generate at least 100,000 tonnes of CO₂ annually) are required to reduce their emissions intensity by 12% (from emission baseline levels). The project emitted approximately 11,600 tonnes of GHG in 2016. With current Phase 1 production capability, the Group does not presently meet the SGER GHG threshold limit and therefore is unaffected by carbon emission levies. It is expected that as production increases in future phases, West Ells project of the Group will eventually qualify as a SGER facility. The GHG emission of the Group during the reporting period are as follows:

Greenhouse Gas Emission ⁶	Emissions (kg CO ₂ equivalents)
Scope 1 (Total)	
- Stationary combustion⁷	11,671,380
- Mobile combustion	53,645.34
Scope 2	5.276
Scope 3	115,165.53
Total	11,840,280.15

Scope 1 emission comes from the consumption of diesel and natural gas. Scope 2 emission comes from the purchased electricity. Scope 3 emissions mainly arose from business air travel and paper waste disposed at landfills.

HAZARDOUS AND NON-HAZARDOUS WASTES

Wastes generated from the project operations are initially characterized as dangerous/hazardous or non-dangerous/ non-hazardous according to AER Directive 58. It is the responsibility of the Group to ensure that each waste stream has been properly characterized so it is handled, treated and disposed of in a proper manner by establishing strict waste categorizing and manifesting guidelines. During the reporting period, 16,313 tonnes of hazardous wastes and no non-hazardous wastes were produced. All wastes generated by the project were properly assessed, classified, and disposed of in a manner consistent with the specific requirements of the Directive.

⁶ The calculation of the greenhouse gas is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.

Scope 1: Direct emission from sources that are owned or controlled by the Group

Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group

⁷ From Annual Air Emissions Report filed with Government of Canada by the Group. The rest of the GHG emissions for 2016 are estimated data.

WASTEWATER

As the project footprint is fairly extensive it is subject to the accumulation of precipitation and snow melt. The project has a system of impermeable drainage ditches and an established grade that directs site water to a large pond with containment where water can be accumulated. The Group is authorized to perform a routine controlled release of the water that accumulates from the central processing facility footprint if it meets stringent parameters specified in West Ells EPEA approval. All water must be tested prior to release by using the Industrial Runoff Control System Limits assessing pH level, chlorides and any visible oil or grease. Any other release of accumulated water from the project area that does not utilize the pond requires the acquisition of a temporary field authorization but testing procedures are similar.

The project has an approved domestic Wastewater Treatment System (WWTS) in use at the site. All domestic wastewater and sludge must be directed to a septic tank with subsequent management through the WWTS. The Group must not release any substance from the WWTS to the surrounding lands except on an engineered and designed effluent field, or for road building and dust/fire suppression, assuming the discharge stream meets the discharge requirements as set out by the EPEA approval. If any amount of effluent is released outside of these parameters, then the Group must immediately notify the regulator of the release. Such case must be followed up with a contravention letter within 7 days of the release.

NOISE

The project must be compliant at all times with noise emanating from the site managed pursuant to AER Directive 38. Key approval conditions are:

- Licensee is responsible for overall noise control, including temporary facilities such as drilling rigs that remain at site for more than 60 days; and
- Cumulative noise level of an existing facility must not exceed the permissible sound level given in the approval.

In order to mitigate the impact to the local communities, the Group also has gone beyond the actual approval conditions and committed to

- Executing a noise impact assessment (“NIA”) within one year of full operations
- NIAs are conducted initially to predict what the sound level will be from a facility at the nearest or most impacted permanently or seasonally occupied dwelling and later to confirm that the operating facility is compliant.

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Based on the noise impact assessment prepared for the project, the results of the noise modelling indicate that noise mitigation is not required for normal operation of the Project. AER Directive 38 protocol provides for a Permissible Sound Level (PSL) at the facility at 40 decibels (dBA). The initial noise assessment and modeling conducted confirmed the project will operate at 27.5 to 37.5 dBA at various receptors, well below approval limits. The Group has received no noise complaints or concerns related to the operating project and will be conducting an operational NIA in 2017. It is expected to demonstrate that no noise mitigation measures are required for normal operation of the Project.

USE OF RESOURCE

Energy

Improving energy efficiency is crucial to the Group's business in emission reduction and cost saving. The Group strives to use energy in the most efficient, cost effective, and environmentally responsible manner possible according to the Group's "Energy Management Policy". It aims to maximize energy performance, reduce operating expenses and increase shareholder value by actively and responsibly managing energy consumption. The Group demonstrates commitment to the community. It operates in and leadership in the Groups industry by reducing environmental impacts associated with energy use. The Group is committed to minimizing impacts through creative management practices, continuous improvement, training and the use of new technology, improving employee awareness and encouraging the sharing of experiences and expertise. It manages a regular review of energy objectives and targets and consults within the supply chain and with other relevant bodies, community groups and neighbours about energy management matters of common concern. Improving energy efficiency is consistent with the group's goal on energy use. During the reporting period, the energy consumption are as follows:

Energy	Consumption (kWh)
Canada	1,649,107.0
<i>Natural Gas</i> ⁸	463,354.9
<i>Gasoline</i> ²	211,107.4
<i>Diesel</i> ²	974,644.7
Hong Kong	
<i>Purchased electricity</i> ²	8.374

⁸ Based on BP statistical review conversion table and EIA energy conversion calculator

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As the Groups project in Canada is located in a remote area, there is no purchased electricity and the energy needed is supported by generators. In order to conserve the energy usage and reduce emission, the Group strives to research new method for oil sands extraction. The Group continues to explore the possibility of applying geothermal and other new energy technologies to reduce the heat and energy producing costs of oil sands production and emissions into the environment. The Group has implemented measures in its daily operations to ensure the project continues to meet the specific resource optimizing principles set out by the AER. Examples of these are:

- the recovery of the practical maximum amount of crude bitumen within the project area;
- the conservation of the practical maximum volume of produced gas at the well pads and central facilities. Note that the project gathers all produced gas and uses it in the process after blending it with the purchased gas stream; and
- the minimization of flaring to non-routine operations such as start-up, shutdown, emergencies, infrequent upsets, and maintenance depressuring

Water

Water is an important resource for oil sands extraction. “SAGD”⁹ technology and production utilizes large amounts of water in its initial (start-up) stages but its use decreases over time. Approximately 60-80% of the volume of a unit of emulsion produced is water. However, approximately 90% to 97% of this water will be recycled. In the long term, the Group anticipates changing to use of brackish water¹⁰ for process water, which will enable us to recycle over 90% of the water. This water source will be identified through a Devonian drilling program. The brackish water will be run through a cleanup process that will remove the particles and dissolved solids, making it acceptable as boiler feed water. The Group also anticipates that 97% of this process water could be recycled before losses as it passes through a full cycle of boiler feed water.

This process involves its conversion to steam, injection as steam to the reservoir, conversion to associated water in the reservoir production, separation and finally clean up prior to being reintroduced to the boiler feed water stream. During the reporting period, water consumption is 269,926.90 m³ and the water intensity is 22,493.91 m³/facilities. The Group have drilled and completed three water source wells for the West Ells operation but currently are able to obtain sufficient water by utilizing just two wells which have active diversion licences. The third water source well is tied-in and ready to be used when needed by obtaining a diversion licence from the regulatory body. Two more water wells were drilled and tested for deliverability and the wells can be tied-in as necessary for future project expansion. The Group also has approval to use surface runoff collected on site to use as process water. The Group do not receive any government subsidies for

⁹ Steam Assisted Gravity Drainage is an enhanced oil recovery technology for producing heavy crude oil and bitumen.

¹⁰ Brackish water is water that has higher salinity than fresh water, but not as high as seawater.

water. In addition to the Group's non-saline (fresh) water source, the Group is exploring saline water sources that the Group has identified in significant quantities in deeper formations for long term operations.

THE ENVIRONMENT AND NATURAL RESOURCES

The operation of the Group will have significant impact on different natural resources, for instance, land, soil, vegetation and wildlife. Guidelines to mitigate those impacts have been listed in the "Environmental Guide Book". It provides details information on the methods and procedures on emission control, environmental monitoring programs and plans.

Land

Preparing sites for our operations requires forestry clearance and well pad preparation. These activities may destroy habitats of wildlife animals. As part of each regulatory application that we make, our projects must implement a reclamation plan to return the specified lands to an equivalent land capability in order to achieve a sustainable landscape similar to its pre-development state. For *in situ* projects¹¹, yearly pre-disturbance assessment, conservation and reclamation plans must be submitted for approval. During 2016, we complied with all applicable environmental laws and regulations at our production sites. We intend to continuously comply with all applicable environmental laws and regulations at our production sites.

Soil

Spilling of wastewater produced would cause pollution to the surrounding environment. In order to prevent cases from happening and mitigate the impacts, the following measures are required to perform to mitigate the impact to soil:

- A baseline soil monitoring program must be completed to characterize the soil prior to the start of plant operations.
- An operational soil monitoring program must be completed to screen for soil contamination and associated adverse effects to receptors.
- A soil management program must be completed when contaminated soils are detected to remediate and reduce/ eliminate adverse effects.

Vegetation

¹¹ *In situ* production methods currently in commercial use apply heat to targeted reservoirs to decrease the viscosity of bitumen, which allows it to flow into wells and be pumped to the surface. *In situ* recovery methods create significantly less surface disturbance than mining operations and do not produce tailings ponds.

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The Group must manage vegetation on all of its infrastructure. For instance, we cut, keep down and destroy all noxious and restricted weeds. Besides, all the topsoil and subsoil stockpiles shall be controlled for weeds and wind and water erosion will be prevented by establishing a vegetative cover.

Wildlife

There are reported cases for resident bears and other wildlife near our project area. The activities in the project may cause disturbance to activities of wild animals. In order to protect the wildlife in the nearby area, the Group has adopted policy to protect wildlife, especially bears and caribou. We aim to maintain and restore habitat, minimize mortality and facilitate movement of wildlife. We do not allow employee to feed wildlife. All the storage of wastes, fuel/refined oils are secured to prevent contact by wildlife. Door and windows are secured for all buildings to prevent the entry of wild animals.

Spill management

Spills will impose a serious consequence to the environment. It causes the pollution to the soil and underground water and adverse effect to the ecosystems. It takes long time for the environment to recover. Under the Group's policy, there are mainly 3 types of spill that could happen in its operations, namely wastewater, unrefined products and refined products.

Sunshine has put in place leak detection devices in the field to ensure spills, if any, are identified on a timely basis. The Group has also established contingency plans and response manuals. Regular training sessions are carried out to ensure field staff is (i) sufficiently capable of monitoring technical parameters e.g. pressure to prevent spills; and (ii) fully aware of how to react according to the contingency plans/ response manuals in case of spills. Reporting systems have also been set up so that the regulatory bodies and respective stakeholders are alerted for any spill incidences.

SOCIAL ASPECTS

EMPLOYMENT AND LABOUR PRACTICES

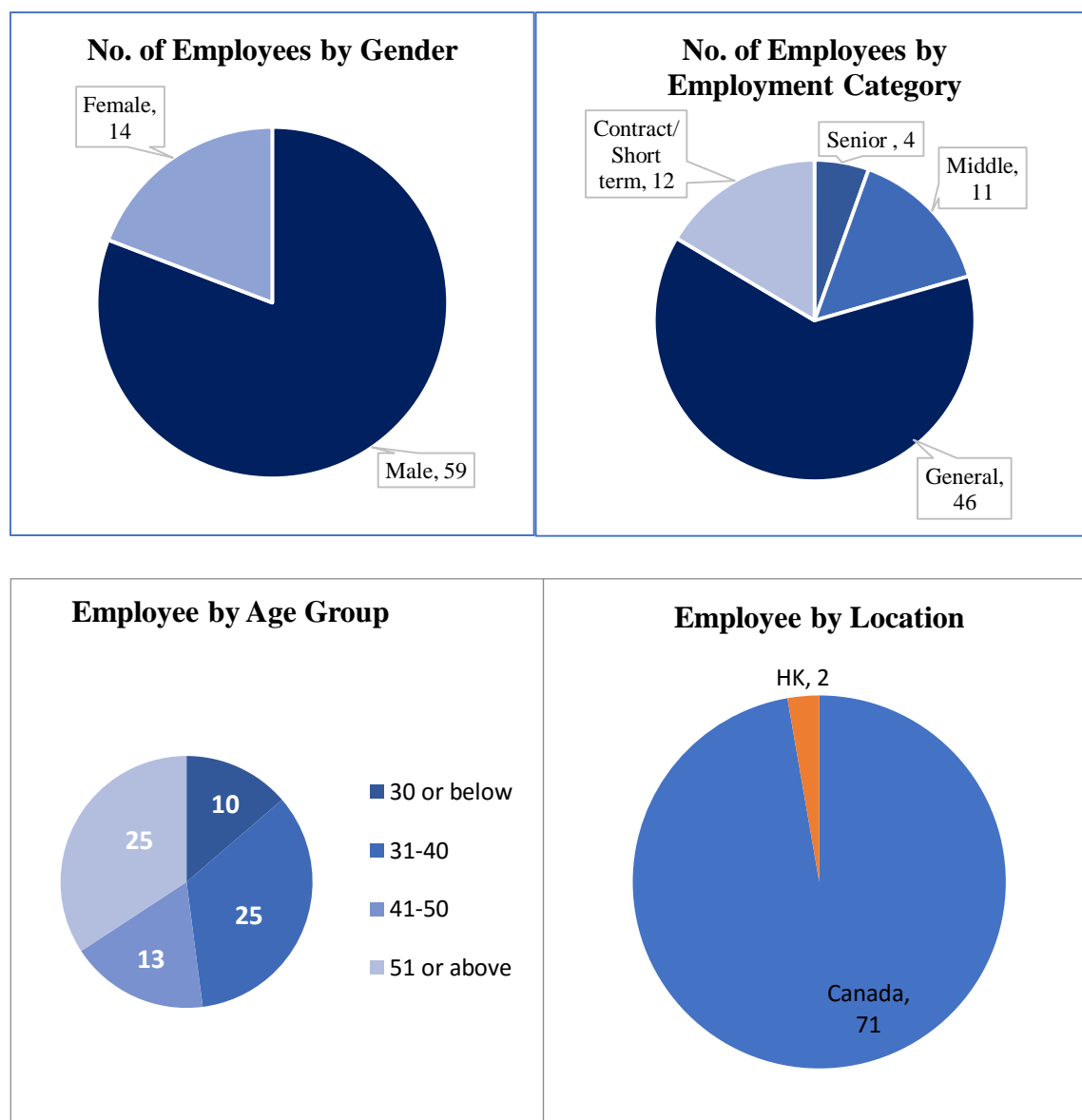
EMPLOYMENT

The Group recognizes the importance of building a harmonious working environment, and keeping employees motivated for work with personal development opportunities. The Group has established the “Human Resources Policy” which includes information about compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-

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discrimination, and other benefits and welfare. The Group is subject to Hong Kong Employment Ordinance, Alberta Employment Standards Code and Human Rights Act. In 2016, the Group was in full compliance of these rules and regulation and was not involved in any lawsuit related to employment.

The total number of employees at the end of the reporting period by gender, age group, employment category and location are as follows:



The turnover rate¹² during the reporting year by gender, age group and location¹³ are as follows:

¹² Turnover rate = Employee loss in the reporting period/Average number of employee (Employee loss in the reporting period excludes the loss of short-term/contract employee)

¹³ During the reporting period, only 2 employees left in Hong Kong.

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Human Resource Strategy

The Group understands the requirements to build a company that will develop energy resources for over 50 years and we are committed to a strategy that fosters progressive thinking, new ideas and new approaches to develop oil sands resources safely and responsibly.

In recent years, a number of projects in Alberta have experienced development and/or production delays due to labour and services shortages. To address recruitment challenges, Sunshine's human resources strategy is to foster a sense of belonging and job satisfaction in our workplace to improve staff retention. In addition, we maintain good relationship with third-party service providers to help support our business decisions, technological upgrades and operational improvements. We also

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provide employment and training programmes for First Nations¹⁴ groups as well as for other local and remote communities.

Human Rights

The Group is in strict compliance with Human Rights Acts, which stated the prohibition of human rights such as discrimination based on gender, age or physical disability. “Discrimination, Harassment and Workplace Violence Policy” is established to protect human rights of the employees. Each employee is responsible for ensuring adherence to the spirit and intent of this policy. Acts of discrimination, harassment or workplace violence constitute unacceptable behavior. The Group will take such disciplinary action as it deems appropriate against any person under its direction who subjects any employee to discrimination, harassment or workplace violence.

All employers are subject to the Labour Relations Code which sets out the process by which an employee may join a union and then have the union enter into collective bargaining on behalf of all employees with the company. There is a very low unionisation rate in the Alberta energy sector.

Benefits and Welfare

All eligible employees are covered by a comprehensive benefit plan. It covers the cost of all benefits except long term disability. The Group has partnered with KATA Chair Massage (“KATA”) to provide on-site chair massages. This program is offered to permanent employees who are covered under our Great West Life benefit plan.

HEALTH AND SAFETY

The Group firmly believes in the Health, Safety and Environment principle of “Safety First”, focusing on occupational safety and environmental protection. We aim for safe and reliable operations where any risks that compromise the health and safety of workers are identified and managed. We have established a series of policies and procedures, including but not limited to “Camp Safety”, “Emergency Equipment Placement” and “Personal Protective Equipment”. We are committed to meeting applicable legal requirements and seeking to implement leading international industry standards in our operations. Our commitment to occupational health and safety extends directly to our Board of Directors. The Group is subject to Alberta health and safety laws and regulations including the Occupational Health and Safety Act, Occupational Health and Safety Regulation and Occupational Health and Safety Code.

The Group 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.

¹⁴ First Nations refers to the people are descendants of the original inhabitants of Canada who lived here for many thousands of years before explorers arrived from Europe.

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Moreover, we have established Office Employee Safety Orientation and West Ells Safety Orientation for both office and field site employees.

Apart from the employees in the Group, we require our contractors to possess appropriate qualifications in their contracted tasks and in production safety. In addition, we require our contractors to enter into production safety contracts with us so that our contractors shall undertake appropriate safety measures.

Our team continues to improve by working together and sharing responsibility for a healthy environment, as well as the safety and well-being of our contractors, our families, our communities and ourselves. We believe that our activities can bring direct benefits to the stakeholders in the communities we work.

The Group has an excellent safety record and we continue to emphasize improvements in our field safety monitoring system for preventing workplace injuries. We strive to meet all regulated standards for health, safety and environment.

In 2016, there was no work-related fatalities and no lost day due to work injuries. The Group did not aware any major or catastrophic incidents related to the health or safety of our employees, contractors or communities in which it operates.

DEVELOPMENT AND TRAINING

The Group considers the development of employee as the important factor for the company to grow. According to “Staff Training and Development Policy”, the Group is committed to the support of staff development for all employees. It aims to facilitate personal and professional development enabling individuals and groups to achieve their full potential at work. Learning and acquiring new skills are part of every employee's work plan and goals. Particular emphasis is given to on-the-job coaching and training. For instance, environmental guide book is delivered to field personnel to raise their awareness to the environmental issues related to the operation. During the reporting period, the statistics related to employee training¹⁵ are as follows:

	Percentage of Trained Employee	Average Training Hours (Hours per employee)
By gender		
Male	75%	44.19
Female	50%	15.64
By employment category		
Senior	75%	82.00

¹⁵ The number of trained employee and training hour data excludes those had left the company during the reporting period.

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Middle	100%	58.45
General	67%	34.41
Contract or short term	50%	22.67

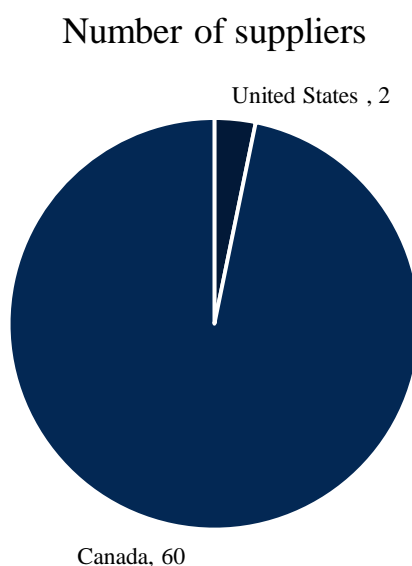
LABOUR STANDARD

The Group strictly complies with Employment Standard Code and Employment Standards Regulation. The Group's "No Child Labour Policy" states clearly that the Group is strongly against employment of child / forced labour and has zero tolerance to such cases. Employment contracts and records, documenting all relevant details of the employees, including age, are properly maintained and are open to verification by any authorized personnel or relevant statutory body. The policy requires that any cases of child or forced labour be reported timely to functional heads. In 2016, the Group did not have any reported case of child or forced labour, was not subject to any punishment by the government and was not involved in any lawsuit related to labour standard.

OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

Business partners and suppliers are expected to conduct their business with the Group in accordance with applicable laws, rules and regulations. Contractors and consultants are expected to develop and enforce policies and/or practices that are consistent with the Group's "Code of Conduct" and its associated requirements. This will facilitate the Group's management of the social risks related to the supply chain. If there is any violations or potential violations of laws, rules and regulations, case must be reported. During the reporting year, there is no reported incidence of violation or non-compliance with applicable rules and regulations. The distribution of suppliers of the Group are as follows:



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In order to strengthen the control on environmental risks of its supply chain, the Group selects supplier based on a list of criteria, for example, quality, costs, track record of the supplier, etc. The Group will compare amongst the suppliers available in the market by the abovementioned criteria and select the ones that are best for the Group. Proper approval procedures are also in place to ensure that supplier selection and procurement are adequately scrutinized and approved according to the Procurement / Authorization policies of the Group.

On the other hand, the Group's "Environment Procurement Policy" encourages employee to purchase environmentally friendly and satisfactory quality products at a reasonably competitive price. It also encourages waste prevention, recycling, market development and use of recycled/recyclable materials through lease agreements, contractual relationships and purchasing practices with vendors, contractors, businesses and other governmental agencies.

PRODUCT RESPONSIBILITY

In energy industry, maintaining safe and high quality of operation is crucial for the sustainable development because our core activities involve significant risk of accidents and incidents. Our ambition is to ensure safe and secure operations that protect people, the environment, communities and assets. Sound performance in this area is necessary for our long-term success. The Group is in strict compliance with safety laws and regulation as mentioned in the "Health and Safety" and "Environmental" sections, and other related laws including but not limited to Personal Information Protection Act. In 2016, the Group was not subject to any disputes relating to the storage service or punishment by the government and was not involved in any lawsuit related to product responsibility. Besides, there were no cases of product recalls due to safety and health reasons and no product related complaints were received during the reporting period.

Safety and Quality Management

The Group's "Incident Management Process" has been in place to provide guideline for proper reporting, classification and recording of health, safety and environmental accidents that result in or may potentially result in, injury or illness and involve employees, contractors, visitors, operations or property. Besides, the Group also recognizes the critical need for an effective Emergency Preparedness Process (EPP) in order to minimize loss and ensure the protection of the public, the environment, public property and company personnel and assets, in the event of an incident.

Quality is important to the Group's sustainable development. We are committed to continuous improvement and have established a quality management system which provides a framework for measuring and improving our performance according to Group's "Quality Management Statement". We have the following systems and procedures in place to support us for continuous improvement throughout our business:

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1. selection and performance monitoring of suppliers against set criteria
2. training and development for our employees
3. regular audit of our internal processes
4. measurable quality objectives which reflect our business aims
5. management reviews of audit results

Our internal procedures are reviewed regularly and are held in a quality manual which is made available to all employees. Quality assurance procedures for the Group's dilbit (diluted bitumen) production mainly involve regular testing of oil quality and measurement of technical parameters. In the plant, all the processed oil before flowing to the sales tank for storage is measured by specific meters for volume, density/API Gravity¹⁶ and Basic sediment and water (BS&W)¹⁷ - to analyze the oil and water content. The meters are required to calibrate annually. Manual oil cuts tests are also conducted frequently to validate the oil and water content of the processed oil measured by the meters. The dilbit, when loaded to the truck before leaving the plant is measured again by specific meters for volume, density/API¹⁴ gravity and BS&W¹⁵. The meters are also required to be calibrated annually. At the unloading facility of the sales point, the dilbit is measured by Lease Automatic Custody Transfer (LACT) unit against the pipeline specifications. This is the industry recognized custody transfer (ownership transfer) systems of crude oil and main petroleum products from the production facilities to trucks, railcars, pipelines or storage tanks. Product that does not meet the specifications will get a discount rate based on the quality or will not be accepted at all at the loading facility

Customer Data Protection

The Group respects the individual's legal rights to privacy. As stipulated in "Data Protection Policy", it protects the rights of staff, customers and partners by providing guidelines for the storage, use and accuracy of data. It is open about how it stores and processes individuals' data and protects itself from the risks of a data breach. The Board of Director is responsible for ensuring that the Group meets its legal obligation. IT managers design, evaluate and constantly update the policies and procedures in relation to data protection and rectify technical issues regarding data protection, if any. Trainings are provided to staff to help them to understand their responsibilities when handling data. There are some key measures are implemented as follows:

- Paper documents should be kept in a secure place (e.g. a locked drawer or filing cabinet)
- Data printouts should be shredded and disposed of securely when no longer required.
- Electronic data must be protected from unauthorized access, accidental deletion and malicious hacking attempts: Data should be protected by strong passwords that are changed regularly and

¹⁶ API Gravity is a standard for measuring the density of petroleum and is suggested by American Petroleum Institute (API), which is the major United States trade association for the oil and natural gas industry.

¹⁷ Basic sediment and water (BS&W) is a technical specification of certain impurities in crude oil. When extracted from an oil reservoir, the crude oil will contain some amount of water and suspended solids from the reservoir formation.

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never shared between employees. If data is stored on removable media (like a CD or DVD), these should be kept locked away securely when not being used.

- Data should only be stored on designated drives and servers, and should only be uploaded to an approved cloud computing services. Servers containing personal data should be sited in a secure location, away from general office space.

All individuals who are the subject of personal data held by the Group are entitled to know what information the company holds and the way to gain access to it. Besides, they have the rights to be informed as to how the company keeps their data up to date and how the Group is meeting its data protection obligations.

The Group engages auditors to perform annual testing on the effectiveness of its internal control including control in relation to IT systems and data protection. During the year, no irregularities and deficiencies were reported in relation to the Group's data protection policies and procedures.

ANTI-CORRUPTION

Unlawful or unethical behavior in the Group's workforce is not tolerated, including soliciting, accepting, or paying bribes or other illicit payments for any purpose. Situations where judgment might be influenced or appears to be influenced by improper considerations must be avoided. Payment or acceptance of any "kickbacks" from a contractor or other external party is prohibited. Examples of laws to which the Group is subject and abides by include the Corruption of Foreign Public Officials Act (Canada). Non-compliance could have serious ramifications. The Group's "Whistle Blowing Policy" sets out the procedures for employees to raise serious concerns. The Group will respect the confidentiality of any whistle blowing complaint received where the complainant requests that confidentiality. In the event that anonymity is requested and the information is given through the ethics hotline, the person will be given a case number and a time or times when he or she can call back for updates on the investigation of his or her complaint.

The Group abstains from any improper intervention in political process and does not make contributions or contributions in kind (properties, materials or services) to political parties, committees or their representatives, unless permitted by law, and approved in advance by the senior management. The Group will continue to fully comply with all legal requirements for public disclosure. In 2016, no concluded cases regarding corrupt practices brought against the issuer or its employees were noted.

COMMUNITY

COMMUNITY INVESTMENT

The Group recognizes the importance of community. We highly respect the aboriginal living in the area. The Group's "Aboriginal Stakeholders Engagement Process and Strategy" sets up a framework

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to manage the community-related risk. In the Athabasca region, key stakeholders include First Nations communities and holders of traditional traplines. We respect the history, heritage and culture of the First Nations communities in the Athabasca region and seek to engage and consult with these stakeholders on a regular basis. Our engagements with stakeholders build relationships in an open, transparent manner with regard to our proposed or existing activities. We proactively seek input into the design of the engagement process at the outset to ensure that communication and consultation needs are met. In adhering to our legal consultation obligations, we are respectful of legal rights, meet existing industry precedents during engagement activities, and seek out creative social investment opportunities in local communities to create mutually beneficial solutions with long-term value for our Company and the stakeholders.

To support the sustainable development of the community, the Group has signed agreements with First Nations to made payments.

First Nation	Money contribution (Canadian dollar)	Activity
Mikisew Cree First Nation (MCFN)	\$100,000 \$25,000	Government & Industry Relations Sustainability Department
Athabasca Chipewyan First Nation (ACFN)	\$160,000 \$25,000	Government & Industry Relations Sustainability Department
Community of Fort McKay (First Nation and Metis Nation)	\$200,000 \$50,000	Sustainability Department Community Cultural Retention
Community of Fort McKay (First Nation and Metis Nation)	Payments made to FM Metis come directly from Fort McKay First Nation (2016)	Not Applicable
Broad Aboriginal Involvement	Not Applicable	60-hours of Volunteer Work

Prior to the launch of any project, we will consult stakeholders, including members of the public, regulatory bodies and aboriginal communities who are, or may be, affected by proposed exploration and/or development activities. We will seek to ensure that a transparent, and respectful relationship is built and maintained with neighbours and stakeholders throughout the project region and encourages input into the design of the project.

In 2016, the Group won the “Best Corporate Social Responsibility Hong Kong Listed Company for 2016” award in the “Golden Hong Kong Stocks Poll” Award Ceremony, which demonstrates our effort in community investment.

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THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

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A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	“Use of Resource-Water”	8-9
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A3 The Environment and Natural Resources			
A3	General Disclosure	“Environment - The Environment and Natural Resources”	9-10

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B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	“Health and Safety”	13-14
B3 Development and Training			
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B 4.1	Description of measures to review employment practices to avoid child and forced labor	“Labor Standard”	15
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B5 Supply Chain Management			

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B6 Product Responsibility			
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B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	No products needed to recalled	16
B6.2	Number of products and service related complaints received and how they are dealt with	No complaints received	16
B6.3	Description and practices relating to observing and protecting intellectual property rights	It’s not a material issue to the Group’s business	-
B6.4	Description of quality assurance process and recall procedures	“Product Responsibility”	16-17
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B7 Anti-corruption			
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B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	“Anti-corruption” No concluded cases	18
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	“Anti-corruption”	18
B8 Community Investment			
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